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RE-INDOCTRINATION OF CHINESE FARMERS

Rectification of the Party working style in the Chinese cities and universities, complain the mouth-pieces of the Party, developed into propaganda against the whole Socialist system. As soon as the campaign of criticism got under way it absorbed everybody's attention. The Party hierarchy didn't want either the storm of criticism or the diversion of time and labour to disrupt harvesting operations in the countryside, and so quite early on rectification was ordered to stop at the Provincial level. Word got through to the farms just the same and many became very excited over the criticisms and were soon repeating them in the villages and co-operatives. Rectification forums on the farms would be quite impossible. The bewildered rural cadres would have been overwhelmed. And so instead of the rectification of the Party there is to be a full-blooded re-indoctrination of the peasants, and some of the specially trained army of 16,000 ideologists and propagandists will no doubt go to the countryside as well as to the colleges and schools in the towns.

A Directive by the CCP Central Committee, issued on August 8, starts out with the flat-footed admission in the first sentence that "there is a necessity to conduct a large-scale socialist education in the countryside at present. The central topics on which the farmers are to be educated are: (1) the superiority of co-operatives; (2) planned purchase and marketing of grain and other farm produce; (3) relations between workers and peasants; and (4) suppression of counter-revolutionaries and observance of the law. Of course it will be necessary to let the farmers open by expressing their own views and troubles, so the Directive lays it down that "to facilitate the 'debate' and make it popular, the co-operatives may put forward some concrete questions for making comparisons." But discussion of planned purchase and marketing and all other

points brought forward must be "essentially a debate on the roads to socialism and capitalism, along the lines that the capitalist road "will only enrich a few and ruin the majority, while socialism is the only road to common development and prosperity for the working peasants." At the same time it has become necessary to introduce counter-criticism of the city rightists whose utterances have become known to the farmers. So work teams have to be sent by the Party to reinforce the rural officials and to conduct the "debate" fully and penetratingly. This method is a distinct improvement, from the Party viewpoint, on that observed in the previous city and educational forums which, to the consternation of the Party, became less a debate between friends and critics of the regime than an uninterrupted criticism.

The line was indeed laid down in lucid detail in an editorial in the People's Daily, which—following closely the text of the Directive—began by saying that while co-operativization had in the main been accomplished in the countryside, the struggle between the socialist road and capitalist road had not been concluded and a large-scale socialist education was necessary among the rural population, especially at this stage when the handling of the coming harvest is a matter of surpassing importance. The argument is that in spite of all the calamities last year the total harvest in 1956 was 15,000 million catties above the preceding year. If a small number left the co-operatives, more joined them. To consolidate the co-operatives, a struggle had to be waged on the economic, political and ideological fronts, and the peasants educated to love the socialist country and their co-operatives and raise their socialist consciousness, so that they will root out capitalist influences and struggle actively against anti-socialist elements. In a way it is a second and minor land reform agitation without the

offer of land to bribe the landless, though there are still a lot of peasants around who were robbed of their land and have been making use of the existing ferment to demand their land back and pitching into those who were most active in oppressing them during the original land reform and counter-revolutionary campaigns. It is admitted that the struggle is bound to be a long one because capitalist tendencies have not been eliminated.

The campaign will largely centre on the question of planned purchase and marketing of grain and other produce. The question is one of the greatest concern, not only to the farmers, but to the Government, just now, for on it depends the outcome of the State scheme. And there is an unusually imperative note in the warning that "it must be brought home to primary cadres and peasants that the question of fulfilling 100 per cent of the target of planned purchase of grain, strictly controlling the grain sales, and seriously cutting grain consumption, is essentially a question of following the socialist road and loving the country."

Nobody is likely to make the great faux pas of recalling Wang An-shih's semi-socialist experiments nearly a thousand years ago, nor the unhappy fate both of that socialist statesman and of his special measures, though one can well imagine that some of the more scholarly of the officials and "gentry" alike have been looking up the score and asking why it was he was forced into retirement after long domination of the Government and the status quo restored. If they have been properly primed, the ideological working teams will have been briefed on this and be ready with their answers, for this episode in China's own history could be even more awkward than the words and deeds of the statesmen of the First Empire, embarrassing as these could be.

The more truculent of the capitalistic farmers, however, have heard not only of the break-through of the critics in the city and university forums, but also of the counter-offensive. No bones have yet been broken, and certainly no heads will fall except in cases of criminal violence which have in fact been reported from some parts of the country. But while the Government have come back at the critics with both hands and feet and effectively silenced (though by no means converted) them, no suggestion has yet been made of imprisonment or similarly punitive measures, beyond the occasional loss of rank and membership, for those who were guilty merely of misusing the Party and State with their tongues. The "putsch" of the critics has ended in the classrooms and forums. Control by the Party will probably be tougher, as it will simply have to be in the rural areas if anarchy is not to ensue. But the warning has been uttered and will remain.

China's poverty and backwardness in the vast interior were not due to the landlords, who were in fact the most progressive and constructive element in the population. Few won their worldly goods by inheritance for the family system soon broke up such windfalls. Each landlord had to make his own

way and by industry, skill, hard work, and superior gifts maintain the position of his family or improve it. The co-operation movement has had fully enough experience to decide whether it is or is not a success. The claim by Peking that the continued rise in production despite all the calamities is due to the APCs has never been substantiated. If the great amount of reclaimed land annually is taken into consideration—as it must and should be—it will be seen that this is the greatest factor in the increase of production. That is also true of the position in the Soviet Union following the opening up of the great virgin lands in Kazakhstan, to which M. Khrushchev owes his position today and his favour in the eyes of the Army.

When food shortages of a critical order occurred early in 1955, after the great Yangtze floods, the Government adopted what it called the "three-fixed policy". Under this a production quota was assigned for every mow of land under cultivation. A certain ration was also fixed for each peasant family. The balance had to be sold to the State. In other words, the peasant households had to sell to the State, at State-imposed prices, an amount of grain equal to its total production quota less taxes and its official ration. In times of grain shortage, the peasants were permitted to buy a fixed ration. Continued shortages and other discontent led to widespread black marketing after the Government itself had been forced to provide an outlet for dissatisfaction by re-introducing the free market in certain commodities, in 1956, after the floods and drought of that year. Now the increasing amounts required to export to pay for imported machinery, and the withholding of grain by the peasants, have led to a new eat less drive. The justification this time is "too many people and too little arable land." A major source of the trouble is that the Communists promised the peasants plenty of pie, and the peasants have the ability to ensure that it does come down out of the sky. They are borrowing more, repaying less, and if they produce more they eat more—and sell more on the black market. It is a situation which is much more important than the ravings of the Party propagandists in the counter-offensive or than the ravings of the critics of the Party in city and academic corridors.

Just as the Communist agitators blamed all the troubles of the past on to the most energetic of the landlords, who were only rich peasants in the overwhelming majority of cases, so they are now blaming the unhappy rural cadres (most of whom were themselves activists in the land reforms and in the murder of landlords). These have been caught between Peking's policy and orders and the resistance of the peasants. In many cases they took the line of least resistance. Peking was far, and so was the Provincial Party Committee; their brothers the peasants were right there and they outnumbered the cadres a hundred to one. But if Peking's pressure goes too far they may cause the rural cadres to align themselves with the peasant households and

REVISION OF CHINA'S COMMUNIST PARTY CONSTITUTION

By Leon Triviere

The agenda of the 8th Chinese Communist Congress of 1956 included, as did that of the 7th Congress of 1945, revision of the Party Constitution. The rapporteur for this question, Teng Hsiao-ping, has just shot up spectacularly in the hierarchy. Born in Szechuan and educated in France (he is at present about 56 years old), he joined, in Paris, the French section of the Chinese Communist Party of which Chou En-lai, Li Li-san, Li Fu-chun, Li Wei-han, Ch'en Yi and certain others were the leading spirits. He became a member of the Central Committee in 1945. In the eleven years that followed, he began to fill, as a result of the deaths of some members and the fall from grace of others, various posts in the hierarchy of the "Party Parliament". He advanced from place No. 28 to No. 22. As a result of the Kao Kang-Jao Shu-shih affair, of which he was the rapporteur in March and April 1955, he was admitted to the Politburo, a basic organization of the Party's leadership. He occupied the last place, No. 13. But on September 28, 1956, the 8th Congress elected him No. 6 of the Politburo, Secretary General of the Central Committee and No. 6 of the Standing Committee of the Politburo, a recently created body having supreme authority within the new Politburo, which swelled from 13 to 24 members. Teng Hsiao-ping now comes immediately after Mao Tse-tung, Liu Shao-ch'i, Chou En-lai, Chu Teh and Ch'en Yun. He precedes Lin Po-chu, one of the "five veterans" of the Party, Tung Pi-wu who, with Mao Tse-tung, was one of the twelve co-founders of the Party on July 1, 1921, P'eng Chen, Mayor of Peking, Marshals Lin Piao and P'eng Teh-huai, etc.

In 1945, Liu Shao-ch'i was the author and rapporteur of the revised Party Constitution. In 1956, Teng Hsiao-ping assumed the same functions at the 8th Congress. This indicates once again the extremely important role that Teng Hsiao-ping now plays in the Party. He dealt with the question in a veritably massive report.

As a matter of fact, the Party Constitution already has a very long history, in the course of which it has undergone many and considerable modifications.

the co-operatives—and that would be the end of the revolution in the countryside, for if the Army did step in it would in turn be compelled (as well as be naturally inclined) to join the peasant and meet his wishes.

The education programme will doubtless end in much the same way as the rectification movement. The bolder spirits will stick their necks out and denounce the wrongs and the policies of the Party, and will be duly deported or otherwise disposed of by the authorities. But just as the now silent corridors of the universities and city forums still reverberate with the words that have been spoken, and many minds turn these words over and over again, so will the peasants remember what their bolder fellows have said long after the speakers have been punished.

The first Constitution goes back to the very beginnings of the Party. On July 1, 1921, a group of intellectuals, the twelve co-founders of the Party, met secretly, in a girls' school belonging to the French concession in Shanghai, under the direction of Maring, delegate of the Komintern, to participate in the 1st National Congress at which the Chinese Communist Party was officially constituted. The Party Constitution was on the agenda of the first Congress. The sudden raid of the Concession Police forced the participants to clear out as fast as they could and to continue their discussions in a safer and quieter place, at Kashing (Chekiang) on a boat on the "southern lake". The twelve men in a boat discussed and "adopted the first constitution of the Party, which was based entirely on the principles adopted by the Bolshevik Party of Russia".

At the 3rd National Congress (Canton, June 1923), the first item on the agenda was "discussion of the draft constitution of the Party", that is, actually the first revision of the Constitution. Two years later, the 4th National Congress (Shanghai, January 1925) "decided upon a second revision of the Constitution" "in order to satisfy the necessity of establishing the basic organizations of the Party on a national scale and to launch the work of agitation among the masses".

After the bloody failures of the revolutionary first civil war (1927) and on the eve of the second, the 6th National Congress of the Chinese Communist Party (Moscow, June 18-July 11, 1928) "adopted a new Party Constitution", in other words, a third revision of the Constitution. The new text, which was adopted on July 9, 1928, was composed of 15 chapters and 53 articles; its purpose was to help the Party follow its "new line", which centred about a minute preparation for armed insurrection by workers and peasants. It was this Congress that rehabilitated Mao Tse-tung. Mao Tse-tung, who had on several occasions been sharply reprimanded by the Central Committee for "deviations", who had been "repudiated" and dismissed from the leadership of the Party, and who had even been "deprived of the right to vote at the 5th Congress" (Hankow, April-May, 1927), was readmitted to the Central Committee by the 6th Congress, although he was not present at it, having remained in Hunan. For the first time, the Komintern and the Party leadership accorded the peasant movement, which had been organized by Mao Tse-tung, a certain official, theoretical and historical legitimacy, though without recognizing it as a movement entirely separate from the working class base, as it was to be later on.

Shortly before the surrender of Japan (August 14, 1945), the Chinese Communist Party held its 7th National Congress in Yen-an (April 23-June 11, 1945). The changes that had taken place in the Party during the eight years of war (1937-1945) led the Party to revise its Constitution for the fourth time. Party membership, which had been 40,000 in 1937, had risen by 1945 to 1,210,000, and though in 1937 the Party controlled only 2,000,000 inhabitants over an area of 75,000 square kilometres, in 1945 the figures rose to 95,000,000 inhabitants in an area of 750,000 square kilometres. This new revision of the Constitution, which was prepared by Liu Shao-chi and adopted by the 7th

Congress on June 11, 1945, is characterized, according to Chinese authorities, by three main features, to wit:

(1) "The addition of the chapter on General Principles which should serve as a standard for the activities of all Party members".

(2) The fact that 'all the articles of the Constitution reflect the perfect harmony between the high degree of centralization and the high degree of democracy'.

(3) Lastly, the revised Constitution stresses 'the perfect reconciliation between rigidity and gravity of principles, on the one hand, and elasticity, suppleness and adaptability in practice, action and work, on the other'.

* * * * *

What were the reasons for the Chinese Communist Party's decision to revise its Constitution for the 5th time in 1956? Liu Shao-ch'i and Teng Hsiao-ping inform us that this was due to the extraordinary changes that had taken place between 1945 and 1956:

(1) The democratic bourgeois revolution of a new type, that is, the neo-democratic revolution directed against imperialism and feudalism concluded with the setting up of the Peking government on October 1, 1949. This neo-democratic revolution was followed by the socialist revolution whose fundamental tasks have already been carried out.

(2) This socialist revolution has brought about radical changes in class relationships:

(a) The working class has become the governing class of the State.

(b) The individual peasantry has been transformed into a collective peasantry.

(c) The capitalist class, as a class, is in the process of being eliminated.

(3) At the same time, considerable changes have modified the situation of the Party:

(a) Government Party: The Chinese Communist Party, which had been an "opposition party" in 1945, has become the government party, the party that holds power in the State.

(b) Numerical Development: Party membership, which had been 1,210,000 in 1945, had risen to 10,734,384 in 1956. More than 60% of the present members entered the Party after the communists came to power in 1949.

(c) Present Dangers of the Party:

1. Bureaucratism and alienation from the masses.

"The experience that was gained between 1949 and 1956," says Teng Hsiao-ping, "shows us that, now that the Party is in power, our comrades have been easily falling into the bureaucratic spirit. The danger of moving away from reality and from the masses has increased rather than decreased, as regards Party organizations as well as individual members".

2. Subjectivism, pragmatism and dogmatism:

"The result of this moving away from the masses and from reality has been the emergence of the errors of subjectivism, that is, the errors of dogmatism and pragmatism. In recent years, such errors have been developing and spreading in our Party instead of diminishing."

3. Pride, arrogance, smugness:

"As a result of the Party's rise to power, Party members have been developing a tendency to pride, arrogance and smugness. Certain Party members swell up with pride over the most trivial success in their work and tend to scorn the others, the masses and persons not affiliated with the Party, as if the fact of being Party members made them superior to persons who were not. Certain Party members

like to show off by displaying their authority. They like to lord it over the masses, but are loath to consult them in their work. This phenomenon actually constitutes a tendency to sectarianism, to cliquishness. It is also a dangerous tendency that leads to serious alienation from the masses."

(d) Consequences:

1. Necessity of strengthening Party leadership and supervision:

"Confronted with this situation, the Party must keep up the fight against subjectivism, bureaucratic mentality and sectarianism and must systematically prevent diverging from reality and the masses. Consequently, in addition to strengthening the ideological education of its members, the Party has an even more important task, namely, the strengthening of Party leadership in various ways and the adoption of appropriate measures, regarding both the State and Party systems, for strict supervision of Party organizations and individual members. What is necessary is not only internal supervision, that is, within the Party, but also external supervision, that is, supervision of Party organizations and members by persons outside the Party: the masses and persons not affiliated with the Party. The crux of this double supervision, internal and external, lies in the development of democratic life in the Party and the State, and the development of our Party's traditional working methods, methods which consist in 'reconciling theory and practice, acting in close collaboration with the masses and practising self-criticism', as explained by comrade Mao Tse-tung in his political report to the 7th Congress."

2. Modifying the Constitution:

"It is obvious that the considerable changes mentioned above, which affect both the State and our Party, make greater demands on the latter. The draft of the Party Constitution that we are submitting to the Congress is an appropriate revision of the former Constitution, a revision based on the new requirements and new circumstances. In addition, the draft Constitution reflects the new experience acquired by the Party in many fields since the 7th Congress."

The 1956 Party Constitution is composed of 60 articles under 9 headings, compared to 70 articles under 11 headings in the 1945 Constitution.

There have been a few modifications in the preamble to the Constitution, which contains the Party's general programme.

As the neo-democratic revolution has ended, the material concerning it has been dropped.

At first sight, one is greatly surprised to see the elimination of an extremely important and frequently used expression: "The ideas of Mao Tse-tung." The 1945 Constitution stated: "The Chinese Communist Party takes as its guiding principles in all its work the theories of Marxism-Leninism and the principles deriving from the concrete experience of the Chinese revolution, that is, the ideas of Mao Tse-tung". This expression has disappeared from the revised Constitution of 1956. Is the omission due to the extraordinary influence of the 20th Congress of the Russian Communist Party? To think so would be an illusion. An attentive and complete reading of the official reports presented at the 8th Congress of the Chinese Communist Party provides clear proof that the Peking leaders not only have not tried to belittle—in the eyes of the Party, the nation and foreign countries—the personal prestige of Mao Tse-tung, but that they have also tried to justify it, to maintain it intact and even to enhance it. Mao Tse-tung's personal prestige remains a trump card of the Chinese revolution. Thus, the leaders of the regime have not failed to point

out Mao Tse-tung's exceptional merits and to exalt his eminent personality as both theoretician and practical leader of the Chinese revolution, not only in the past but in the present as well. They have justified his role as leader, legitimized his individual initiatives, proclaimed the correctness of his action and praised his qualities as "helmsman" of the Chinese revolution. So much for the man of action. As for the theoretician, they have zealously urged Party members to hark back to "Mao Tse-tung's luminous explanations on the line of the masses, on the Party's working methods" and "to study Mao Tse-tung's writings", just as they do those of Marx and Lenin. Among the texts set forth, we shall choose only one; it is all the more important in that its author is Liu Shao-ch'i:

"The leader of our Party, Mao Tse-tung, has played the important role of helmsman in our revolution and enjoys great prestige both in the Party and throughout the country. This is explained by the fact that not only does Mao Tse-tung know how to unite and reconcile the general and universal truth of Marxism-Leninism with the conditions and concrete applications of the Chinese revolution, but also by the fact that he firmly believes in the force and wisdom of the masses, that he has instituted and propagated the line of the masses in the work of the Party, and that he energetically maintains the Party's principles concerning democracy and collegial leadership".

This text of Liu Shao-ch'i brings us to an important addition to the new Constitution. This addition highlights the necessity of harmonizing the universality of Marxism-Leninism with the particular features of the Chinese Revolution: "Marxism-Leninism is not a dogma," says the new Constitution, "but a guide to action. In fighting for the realization of socialism and communism, one should start from objective reality, should apply creatively and flexibly Marxist-Leninist principles in order to solve the various problems arising in the practical struggle, and should constantly further the development of Marxist-Leninist theory. Consequently, the Party maintains in its own activities the principle of closely associating the universal truths of the Marxism-Leninism with the concrete practice of the Chinese revolution, and fights against all deviations of dogmatism and empiricism".

Although this addition brings nothing new in actual fact, it officially consecrates what is peculiar to the Chinese revolution, particularly what has been called "maoism", that is, what the Chinese communists call "the ideas of Mao Tse-tung". We cannot but recall on this occasion the interesting declaration made in 1948 by Po I-po, member of the Politburo since September 1956 and Director of the General Office of Heavy Industry and Construction since May 1956: "The movement for rectification of the Party's style of work (1942)," he said, "has taught us that the Chinese Communist Party should have its own principles. It was not necessary for us to follow the same path as that of the Soviet Union".

In addition, imitating Krushchev's attitude towards Yugoslav particularism, Mikoyan, delegate of the Russian Communist Party to the 8th National Congress of the Chinese Communist Party, granted the Soviet Union's official recognition of Chinese particularism: "There is no doubt," he said, "that each country has its own characteristics and its individual peculiarities during the period of transition to socialism. However, as Lenin pointed out, these characteristics imply only things which are not involved in what is most essential". "Marxism-Leninism is not a dogma," continued Mikoyan, "but a living doctrine, each part of which must be verified in the course of mankind's development and must be constantly completed, enriched and developed by the experience of the struggle of the working class and of its political parties. . . In applying

the teachings of Marxism-Leninism, the Chinese Communist Party, its Central Committee and the eminent Marxist-Leninist comrade Mao Tse-tung have made an immense contribution to the theory of Marxism-Leninism. . . The Communist Party of the Soviet Union considers that the obligation which it must fulfil is not only to offer its own experience to others, but also to welcome all the useful experiences of the sister parties. . . The members of the Chinese Communist Party have, on the basis of the fundamental principles of Marxist-Leninist theory, applied this theory creatively to the concrete conditions of China and have proved themselves capable of finding new forms and new methods of socialist construction better adapted and more appropriate to the concrete conditions of their country. Some of these forms and methods, although they have not been experimented within other countries, have nevertheless achieved brilliant success on Chinese territory. In an article written at the end of his life, Lenin pointed out that this phenomenon is in keeping with the law that the future revolution of the eastern countries which have large populations and complex social conditions will have more peculiarities than the Russian revolution. The Chinese experience confirms this prophecy of Lenin. What should be pointed out here is the experience of the Chinese communists who have found concrete forms and methods for the progressive transformation of national capitalistic enterprises into socialist enterprises by going through the stage of State capitalism. . . It is self-evident that the socialist transformation of the Chinese countryside is more complicated. But the Chinese comrades, in utilizing the excellent experience of the Soviet Union, are avoiding certain errors that we committed, and they can easily overcome certain difficulties. The Chinese communists who display remarkable qualities of wisdom, courage and organizing ability are directing the peasants towards socialism and uniting the peasant economy with socialist or semi-socialist types of co-operatives. . . It should be pointed out that the Chinese communists, by setting as their goal a fundamental change in social relationships in the countryside, have also adopted, on the basis of their thorough study of their country's conditions, their own tactics and their own methods and, at the same time, demonstrating their flexibility, have taken special measures regarding rich peasants and landlords according to their attitude towards the socialist transformation of the countryside. Is this good? Is it bad? There is nothing incorrect about it. Indeed, it is very good. We should add that, in his discussion of the peasant question, Lenin foresaw such an eventuality under certain given conditions. Comrades! The Chinese Communist Party is maintaining the purity of Marxist-Leninist theory in its fight against hidden or open enemies and is ingeniously applying Marxism-Leninism to the particular circumstances and situation of China. Such is the highly important condition that will ensure the victory of the Chinese Communist Party in the great people's revolution that aims at the transformation of China".

One cannot help seeing a connection between these words of Mikoyan and a text of Mao Tse-tung, which is one of a number of documents issued at the time of the movement for rectifying the Party's style of work and of the doctrinal development of "maoism" during the Yenan period: "Those who consider Marxism-Leninism as a religious dogma display blind ignorance. . . Our comrades should understand that we do not study Marxism-Leninism for its charm or its mystic quality. Marxism-Leninism has neither charm nor mystic quality. It is quite simply a body of thought of very great utility. Until now, some people seem to have regarded Marxism-Leninism as a ready-made panacea: once you have it, you can cure all ailments in a twinkling. This is a kind of blindness that comes from childlike thinking.

We must launch a movement in order to open the eyes of these comrades. Those who regard Marxism-Leninism as a religious dogma manifest this kind of blind ignorance. We must say to them clearly: 'Your dogma has no utility,' or else we must say to them impolitely: 'Excrement is more useful than your dogma.' The excrements of dogs can fertilize fields. And human excrements can feed dogs. But what about dogmas? They can neither fertilize fields nor feed dogs. What good are dogmas? Comrades! You know that the purpose of this talk is to ridicule those who regard Marxism-Leninism as a dogma, to frighten them, to awaken them and to make them take a correct attitude toward Marxism-Leninism. Marx, Lenin, Engels and Stalin constantly repeated: 'Our doctrine is not a dogma; it is a guide to action.' These extremely important words have been forgotten by those comrades (who regard Marxism-Leninism as a religious dogma). Theory and practice can be harmonized only on one condition, namely, if the members of the Chinese Communist Party adopt the points of view, conceptions and methods of Marxism-Leninism, apply them to China, and create a theory by systematizing their conscientious inquiries into the realities of the Chinese revolution and into Chinese history'. Long before this address, which was delivered on February 1, 1942, Mao Tse-tung had emphasized the necessity of harmonizing theory and practice. In his Essay on Practice (1937), he ridiculed the old Confucian adage: "The scholar does not cross his threshold and knows all that exists under heaven". The Chinese word that is constantly used to express this harmony between theory and practice is "hsueh-hsi", which is usually translated by "studies", but which in reality contains two ideas: "to study" and "to practice". Mao Tse-tung also shows how a faulty understanding of this harmonization will lead to two kinds of deviation in the Party, two types of subjectivism. The first is dogmatism, which is not based on practice. The second is empiricism which, on the other hand, limits itself solely to practice. "Of these two types of subjectivism in our Party, the most dangerous at present is dogmatism". The reports presented at the 8th Congress again denounced these two deviations which, they stated, had continued to spread in the Party. "Now that the Party has come to power," says, for example, Teng Hsiao-ping, "Party organizations and members run the increasing danger of diverging from the masses and from reality. Such divergence necessarily leads to errors arising from subjectivism, that is, dogmatism and empirism, deviations which have continued to spread within our Party in recent years".

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Another characteristic of the new Constitution, says Teng Hsiao-ping, is to emphasize the "line of the masses", which, declares Liu Shao-ch'i, "Mao Tse-tung instituted and recommended in the work of the Party". Why emphasize this "line of the masses"? Because faulty application of it leads to two deviations. The first is "tailism", which consists in putting oneself at the "tail" of the masses, that is, in their wake, by blindly following the feelings, desires and opinions of the masses. The second is "commandism" or authoritarianism, that is, directing the masses without considering their feelings, desires, and opinions. The Peking authorities observe that commandism is the more widespread of these two deviations. The opposite would have been surprising. It is hard to imagine the men of this totalitarian regime sinning by excess of sympathy for the feelings of the masses. "Tailism", says Mao Tse-tung, "reveals an error of inertia". "We are not tailists, people in the wake of the masses," says Teng Hsiao-ping, "for we know very well that the opinions that come from the masses cannot be correct and thoughtful".

The two deviations of "tailism" and "commandism" had already been denounced by Mao Tse-tung in his political report to the 7th Congress on April 24, 1945.

The "line of the masses" must take the middle road between these two deviations. It is summed up and defined in Mao Tse-tung's slogans: "To come from the masses and to return to the masses." The 1945 Constitution had already expressed these two ideas: "Every Party member must be firmly resolved to go to school to the masses and at the same time to be unwearied in educating the masses in a revolutionary spirit so as to awaken and develop their political consciousness". "Party members," says Teng Hsiao-ping, "should first be pupils of the masses in order then to become their masters". A decision of the Central Committee, drafted by Mao Tse-tung and dated June 1, 1943, explains: "It is necessary to recapitulate, summarize, coordinate and systematize the ideas and opinions of the masses and, on the other hand, to return to the masses in order to direct them, educate them, explain to them the conclusions of investigations into the masses, popularize these systematized ideas, until the masses accept them as being their own, take a stand in their favour, and then implement them and put them into practice, thus verifying the correctness of these ideas". This "line of the masses", which Liu Shao-ch'i calls "the fundamental political and organizational line of the Party", is regarded by Teng Hsiao-ping as "a fundamental matter in the organizational work of the Party".

Now, "the facts prove that many comrades have not followed this line of the masses sufficiently", recognizes Teng Hsiao-ping, "and the ideological education of Party members on this point is manifestly inadequate. . . The masses are not consulted. Party members do not go to school to them. The masses are blamed; they are reproached with being backward. The prestige of the Party is abused. Party members act arbitrarily and stubbornly, these aggravating errors and faults. . . Arrogance, arbitrary practice, haste, the habit of having prejudice in favour of intelligence and sophistication, the habit of not consulting the masses, the habit of imposing one's opinions on others, the habit of persisting in one's errors in order to maintain one's own prestige . . . all this is radically incompatible with the line of the masses that the Party has laid down for itself".

Teng Hsiao-ping contrasts all these regrettable deviations of ill-educated comrades with the exemplary attitude of the goody-goody soldiers of the People's Army of the Liberation "who drew water for the local residents and their officers who spread blankets over sleeping soldiers, held meetings in the trenches to learn from each other, took care of the health of prisoners, respected the dignity of the vanquished, and did not rob them. . . It was because they had followed the line of the masses that the soldiers and officers of the Army of Liberation were able to beat the Kuomintang troops".

Likewise, it was the Party's loyalty to the line of the masses that was responsible for its other victories: land reform, suppression of counter-revolutionaries, socialist transformation of crafts, private industry and business. . . And that is not all. "It was also thanks to the line of the masses," adds Teng Hsiao-ping, without joking, "that the peasants entered the farm production co-operatives so rapidly, spontaneously and voluntarily". That the peasants sacrificed—"of their own free will" or "with enthusiasm", as some other leaders add—their private property so that it would be integrated into the collective property of the farm production co-operatives is the very opposite of the truth. We have already demonstrated this sufficiently. If there is need of further proof, consider the following extracts from communist documents: ". . . The peasants have

a 'private ownership' psychology, and their tendency towards spontaneous capitalism is developing. That is why this psychology and this tendency come into conflict with the State measures on socialist transformation. . . Since last winter, a very abnormal phenomenon has manifested itself in certain regions, to wit: soldiers have been killing and selling cattle en masse; they have been knocking down trees and have become inert and passive instead of engaging in production. Consequently, this has created difficulties for the spring ploughing and for this year's production, up to a certain point. This reflects the low production morale of certain peasants, chiefly of the medium peasants, as well as the fluctuation of their thinking. Now, certain rural officials, not fully aware of the seriousness of the situation, maintain "that there is no reason for alarm and that a situation of that kind is inevitable during the period of transformation. Their attitude is one of lethargy and indifference in the face of a situation which is rather tense in the countryside! They ascribe no special importance to the emergency measures taken by the Party and the State to re-establish the situation and to stimulate the production morale of the peasants. . . The progressive transformation of property fundamentally does away with private ownership of the means of production, and that arouses the resistance of the peasants who are strongly imbued with the concept of private property. State planning of the purchase and sale of cereals is also in conflict with the conservative mentality of peasants who want to keep their cereals and who tend spontaneously to look to the prices of the free market. . . A long-term fight should be carried on against rural capitalism. . . According to the way things appear at present in the countryside, farm production may end in failure this year if it is maintained that the fluctuation of peasant thinking is inevitable and if existing defects are not corrected. Failure in agricultural production would affect not only the life of the peasants, but also socialist industrialization and the socialist transformation of agriculture". This text appeared in 1955. The fact is that the Chinese peasants did not enter the cooperatives spontaneously, but were forced into them. Those who still persist in heroic refusal are doomed to die of hunger sooner or later. We therefore know how to interpret the "spontaneity", "enthusiasm" and "consent" of the masses. As for their welfare and interests, Teng Hsiao-ping admits: "What is very serious is the fact that certain important comrades have no interest in the welfare of the masses. Instead of trying actively to solve the problems for which the masses want an immediate solution, they remain distant and indifferent". At the same 8th Congress, Chou En-lai observed that the comrades in charge of "certain industrial units are concerned solely with the rapid rate of production and do not bother about safety and quality. The result is numerous accidents, mediocre quality and waste". Recently, in September 1956, the Jen Min Jih Pao had to take up the matter on a national scale; it published a severe editorial condemning the increasing excesses of communist officials and sharply reprimanded the heads of enterprise who "in order to boast about having achieved temporary success in production and construction . . . endanger and sacrifice the lives of workers". And the newspaper of the Central Committee gives as examples the many mortal accidents caused by comrades who wanted at any price to finish the Paochi-to-Chengtuo railroad line by July 1, 1956. This line, which is 525 miles long, was begun on January 7, 1952 and completed on July 13, 1956. The newspaper also mentions the deplorable accidents resulting from the negligence of certain directors of the Peiman Steel Works, the Tzehsing coal mines (Hunan) and the Szefang factory (Tsingtao).

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The "line of the masses" is practised either within or outside of the Party. "Application of the line of the masses within the Party," says Teng Hsiao-ping, "is the principle of democratic centralization". This principle had already been laid down in the 1945 Constitution, but the 1956 Constitution adds detailed explanations and minute stipulations. This measure is motivated in particular by the two main deviations resulting from a faulty interpretation of this principle of democratic centralization:

1. First Deviation: "Excessive centralization, leftist opportunism". "This error lies in the fact that the central and higher agencies of the Party do not consult the local and lower agencies. They do not listen to either their suggestions or criticisms. . . In the history of the Party, the domination of leftist opportunism began to disappear, in general, in January 1935". Now, this date is precisely that of the Tsun-I Conference at which Mao Tse-tung officially took over the leadership of the Party and for the first time occupied the posts of Chairman of the Central Committee and of the Politburo. This once again highlights the rectitude of the political action of Mao Tse-tung. However, the excessive centralization of leftist opportunism has had its effects on the Party. Teng Hsiao-ping observed bitterly: "The higher organizations have formulated and imposed excessively rigid regulations without previous study of the conditions and experiences of the lower organizations. Consequently, the lower organizations encounter difficulties in trying to apply the directives from above. Many higher organizations have not yet acquired the habit of consulting and listening to the lower organizations and are satisfied with issuing orders from their sacrosanct offices".

2. Second Deviation: "departmentalism", that is, the lack of centralization: "They like to make their particular sector, service or department a little world unto itself; they hate party direction and supervision and do not respect the decisions of the high organizations or of the Central Committee. The Party corrected these deviations by a whole series of energetic measures, particularly between 1941 and 1944".

3. Consequences: These two deviations lead naturally to "exaggeration of the role of the individual". Teng Hsiao-ping gives as an example the Kao Kang-Jao Shu-Shih affair. We have seen in an earlier study that Kao Kang, who had been appointed director of the State Plan on November 15, 1952, was practically condemned at the decisive Politburo meeting of December 24, 1953. Teng Hsiao-ping states "that as early as the National Party Conference on Economic and Financial Work, which took place in the summer of 1953, and at the National Conference on the Work of Organizations of September and October 1953, the Central Committee repeated its warnings and called upon all Party members to strengthen Party solidarity, but these conspirators (Kao Kang, Jao Shu-shih) turned a deaf ear to these warnings and continued to carry on their intrigues with the aim of splitting the Party and seizing power".

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"Democratic centralism" should take the middle road between these two deviations of "excessive centralism" and "departmentalism", both of which lead to "exaggeration of the role of the individual" at the expense of "collegial leadership". Democratic centralism should ensure perfect harmony between "collective leadership", which maintains the ideological, political and organic centralization of the Party, and "individual responsibility" of Party members, which safeguards democratic life within the Party.

"The 20th Congress of the Communist Party of the Soviet Union," says Teng Hsiao-ping, "has cast a brilliant

light on the deep significance of adhesion to the principle of collegial leadership and has fought against the cult of personality". As we know, Teng Hsiao-ping is particularly well informed about the Soviet "new look" since he took part in that famous congress which opened in Moscow on February 14, 1956, the anniversary of the Treaty of Friendship, Alliance and Mutual Assistance which was signed by Stalin and Mao Tse-tung on February 14, 1950. The Chinese delegation, which was headed by Marshal Chu Teh, included, among others, Teng Hsiao-ping, Tan Chen-lin, Wang Chia-hsiang and Liu Hsiao. Chu Teh read at the 20th Congress a statement by Mao Tse-tung dated February 9, 1956, in which the Chief of State of People's China declares that "the Central Committee of the Russian Communist Party has realized the Leninist principle of collegial leadership, has constantly practised criticism and self-criticism, has energetically crushed the traitors and conspirators of the Beria group", and, five lines later, adds: "the brilliant successes of the Soviet Union in many fields demonstrate the solidity and invincibility of the Soviet Communist Party created by Lenin and developed by Stalin and his faithful fellow-fighters".

It is clear that the Chinese communists have not repudiated Stalin as the leaders of the Kremlin have done. Following a meeting of the Politburo, the Jen Min Jih Pao of Peking published, on April 5, 1956, the point of view of Peking on destalinization. The Chinese leaders showed themselves cautious and flexible: "... As Marxist-Leninists, we deny the existence of a 'demi-God' exempt from errors, whether serious or light. . . The dictatorship of the proletariat requires a high degree of centralization of power, which must be combined and harmonized with a high degree of democracy. When centralization is over-emphasized, many errors occur. This is comprehensible. . . During the last years of his life, Stalin committed serious errors. . . But Stalin played an inefaceable role in the influence that the Central Committee of the Soviet Communist Party has won thanks to his energetic leadership. As head of the Party and of the State, Stalin showed his creative spirit in the application and development of Marxism-Leninism and in the defence of the heritage of Leninism and the fight against the enemies of Leninism—the Trotskyites, the Zinovievites and other bourgeois agents. Stalin expressed the will and desires of the people and showed himself to be an eminent Marxist-Leninist fighter. Stalin won the support of the people and played an important role in history because he defended, along with the other leaders of the Party, Lenin's line of the industrialization of the Soviet State and farm collectivization. . . That is why the name of Stalin was highly honoured throughout the world. But Stalin wrongly exaggerated his personal role: his individual authority counterbalanced the collegial leadership. Indulging himself more and more, during the latter part of his life, in the cult of personality, Stalin violated the Party system of democratic centralism and the principle of the harmonization of collegial leadership and personal responsibility. Consequently, he committed serious errors. He exaggerated the repression of the counter-revolution, lacked the vigilance necessary on the eve of the great anti-fascist war, did not pay adequate attention to agricultural progress or the material well-being of peasants and expressed erroneous opinions on the international communist movement; in particular, he took incorrect decisions regarding Yugoslavia. However, some people consider that Stalin was wrong about everything. That is an extremely false idea. Stalin was a great Marxist-Leninist, but at the same time he committed several serious errors without realizing that they were errors. . . It should be emphasized that Stalin's works should be seriously studied, now as in the past, and we must accept, as an important historical heritage, all that is of value in

Stalin's writings. We must see Stalin from an historical point of view and analyze his work correctly to see where he was wrong and where he was right".

We are far from the diatribes of Krushchev and Mikoyan at the 20th Congress in Moscow.

Mikoyan, who was a delegate of the Soviet Union to the 8th National Congress of the Chinese Communist Party, said the following in Peking concerning these divergencies: "Criticism of the cult of individuals has meaning not only for our Party (the Soviet Communist Party). All communist parties and workers' parties condemn the cult of individuals and agree in observing the Leninist principles of collegial leadership and the Leninist criteria of the life of the Party. If, in discussion of these questions, it is pointed out that the parties of all countries show certain divergencies, condemn the cult of Stalin's personality with varying degrees of severity, and reveal differences in their evaluation of certain particularities, while maintaining their complete identity of attitude as to principles, this unity and this identity then acquire for greater significance". Let us note in passing that Mikoyan quoted Lenin many times to prove the essentially Leninist character of the Chinese revolution in both the past and the present and the perfect rectitude of the thinking and action of comrade Mao Tse-tung, who, as an eminent Marxist-Leninist, had made an immense contribution to the theory and practice of scientific socialism. On the other hand, he quoted Stalin only once, in connexion with the "condemnation of the cult of Stalin's personality".

Thus, Mikoyan officially recognizes the divergencies of the Chinese Communist Party in its attitude towards the cult of Stalin's personality, provided it remains faithful in maintaining a complete identity of attitude towards the Leninist principles of collegial leadership and the democratic life of the Party.

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With consummate cleverness, the Peking leaders explain their point of view regarding collegial leadership, personal responsibility and the role of leaders in the Party. They state, first of all, that they did not wait until the 20th Congress in Moscow to practise collegial leadership: "In order to counteract subjective methods of leadership, the Central Committee of the Chinese Communist Party adopted a resolution, on June 1, 1943, on methods of leadership". "In September 1948, the Central Committee of the Chinese Communist Party took a decision to establish the system of party committees on a solid basis, which decision played a great role in strengthening collective leadership within the Party. . . As this decision indicated, the system of collegial leadership of the Party committees or, to be more exact, the system of the division of responsibilities among leaders under the collective leadership of the Party Committee, had been praised for a long time in the People's Army of Liberation".

"The Party centre, headed by comrade Mao Tse-tung, has drawn up a whole series of decisions, resolutions and directives which constantly stress the principle of collegial leadership. In the system of Party committees, which ensures application of collegial leadership, the committee secretaries must constantly bear in mind that they are not above the committees . . . and the committee members should constantly remember that they must take a personal interest in the entire work of the committees and that they are largely responsible for its work".

Thus, the Chinese Communist Party would have no lesson to learn from the 20th Congress of Moscow. Despite everything, Teng Hsiao-ping recognizes that, though collegial leadership is an old principle of the Chinese Communist Party, this principle has not been and is not yet

always applied in actual practice: "In a small number of Party organizations," he says, "some comrades are still inclined to exercise a personally exclusive control. They rarely hold regular and necessary meetings. When they do hold such meetings, they reduce them to a pure formality. They do not give the participants a chance to study in advance the questions about which decisions are to be taken. Or else they do not create an atmosphere suitable for free discussion at meetings. Consequently, they practically impose their decision on Party members. This display of personal authority under cover of collegial leadership should be energetically opposed. All matters submitted to meetings should be discussed, and divergence of opinions should be permitted". Teng Hsiao-ping also recognizes that "Party congresses and conferences have been called at irregular and long intervals, contrary to requirements of democratic centralism. However," he adds, "this has hardly affected democratic life within the Party, for a large number of conferences of officials have been held by central and local organizations of the Party. . . But in order to ensure more complete development of democratic life in the Party in the future, the new Constitution provides that the National Congress of the Party is elected for five years, the provincial congresses for three years and the county congresses for two years. In addition, all these congresses shall meet regularly once a year".

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With amazing subtlety, the Chinese communists are attempting the tour de force of trying to demonstrate that they reject the "cult of personality" while exalting the extraordinary personality of Mao Tse-tung and his role of "helmsman of the Chinese revolution", to use the very terms of Liu Shao-ch'i, as we saw earlier. "Our Party is repelled by deification of the individual," says Teng Hsiao-ping (N.B. The Chinese expression that is used here is not that of 'cult of personality', but another and stronger expression which means "deification of the individual"), and it is one of the great merits of the 20th Congress of the Soviet Communist Party to have taught us that deification of the individual can have widespread and very harmful consequences, but attachment to the leaders and love of the leaders are not a 'deification of the individual', for this veneration of the leaders is, at bottom, simply love of the

interests of the Party, of the working class and of the people".

Teng Hsiao-ping offers two arguments in support of this thesis:

a. A proof de jure: "Marxism," he says, "has never denied the role of leaders in the Party. Lenin declared, in a famous statement, that 'the leaders are those who have the most authority, the most influence and the most experience'. There is no doubt that their authority, influence and experience are of great use to the Party, the working class and the people. We Chinese communists can appreciate this thoroughly, owing to our own experience. Obviously, such leaders emerge quite naturally from the struggle of the masses and cannot impose themselves and set themselves up as leaders. . . The leaders of the working class are not above the masses, but in the midst of the masses; they are not above the Party but in the Party. . . Love of a leader expresses, essentially, one's devotion to the Party, the working class and the people".

b. A proof de facto: "On the eve of the national victory of the People's revolution," continues Teng Hsiao-ping "the Central Committee decided, at its 2nd session, in March 1949, and at the proposal of comrade Mao Tse-tung, to forbid the celebration of birthdays of Party leaders, the baptizing of cities, streets and enterprises with the names of Party leaders. This decision had good effects and prevented the exaltation and glorification of individuals. The Central Committee has always opposed the sending of messages of good wishes and congratulations or telegrams announcing successes achieved in work. It has also always declared itself against exaggeration of the role of leaders in literature and the arts".

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In reading these texts, one cannot keep from smiling as one thinks, quite naturally, of the innumerable messages of congratulations sent to Mao Tse-tung, or of the exalting of Lu Hsum, whom the Chinese communists point to as their great master in revolutionary literature. Nevertheless, the numerous sophisms uttered at the 8th Congress of the Party will probably not fail to take in the even more numerous dupes.

THE POUND STERLING IN INTERNATIONAL PAYMENTS

By Hans Bachmann *

A descriptive statement on the functioning of the pound sterling in present-day international payments requires no special justification. The importance of the role played by the British currency lies in the fact that about 65 per cent of world trade is still carried on in pounds sterling. From the scholar's point of view we are confronted with the most elaborate exchange control which has ever existed.

It is suggested to examine the subject under the following headings: (1) the sterling area; (2) payments to and from countries outside the sterling area (the countries with American account sterling, the transferable account sterling, registered accounts and blocked account); (3) British commodity markets; and (4) the question of sterling convertibility. A tabulation of the various categories of pound sterling, indicating for each category the authorized uses and the recent rates of exchange, will be found at the end of the article.

Before entering into the examination of the aforementioned items, it is well to remember that the rate of exchange of the pound sterling in terms of gold and United States dollars is fixed under the International Monetary Fund at £ = \$2.80. From the point of view of British law there exists no fixed rate of exchange of the pound sterling nor a legal convertibility which would oblige the British Treasury or the Bank of England to convert British currency into gold or any other currency, and still less to convert it at a fixed rate of exchange. The only juridical provisions with respect to both the rates of exchange and convertibility are to be found in the International Monetary Fund to which the United Kingdom is a subscriber.

No attempt is made in this paper to trace the history of the British exchange regulations, which would not simplify but rather complicate the picture of the present situation. The reader should however be advised that whilst the monetary policy of the United States still shows pronounced static elements, the present British monetary and payments policy is, in comparison, highly dynamic and has always been so since 1914 and especially since 1939. This dynamism was imposed on the British world by the general weakening of the economic and financial situation of the United Kingdom and by consequent balance of payments difficulties. It eventually found its theoretical justification in modern economic teaching. Whilst the monetary policy of the United States to some extent still reflects the conception of currencies as an almost self-contained complex leading its life on laws of its own, the dynamism of the British monetary and payments policy must be understood as the expression of a conception in which money is nothing more but a technical instrument of economic existence, an ever changing aspect of ever changing economic conditions.

A. The Sterling Area

1. Territory and formal status. The monetary region which is currently called the Sterling Area (the juridical term used in the British Exchange Control Act is "scheduled territories") comprises the British Commonwealth except Canada plus Burma, Iceland, Iraq, Ireland, Jordan

and Libya. It is to be noted that all the participating countries have their own currencies and, with the exception of the British dependencies, enjoy full monetary autonomy.

Whereas other monetary organizations like the International Monetary Fund (IMF) and the European Payments Union (EPU) are based on multilateral agreements to which many countries are parties, there exists no common agreement on the Sterling Area. Instead there is a network of bilateral agreements between the United Kingdom and Australia, the United Kingdom and the Union of South Africa, the United Kingdom and Burma, the United Kingdom and Iraq, etc., which vary in details but show the same essential patterns. Nor are their common organs similar to the Board and the Management of the International Monetary Fund. The United Kingdom, through the Treasury and the Bank of England, exercises a recognized leadership of trusteeship in the usual Commonwealth framework of continuous close exchange of information and views, possibly implying the permanent presence in London of liaison officers between the Bank of England and the central banks of the participating countries.

2. Essential features. a. The most significant feature of the Sterling Area no doubt is that all the participating countries admit a much higher degree of freedom for payments between themselves than for payments to the rest of the world. The participating countries maintain a clear line of discrimination between payments to and from other participating countries and payments to and from the rest of the world. (Incidentally this is another case where the prescriptions of the IMF are only partly applied).

Whilst the principle of discrimination is common to the whole Sterling Area, the degree of discrimination—the result of the exchange regulations autonomously maintained by each participating government—widely varies from country to country. There is some difference with respect to the regulation applied to the outside world, although all the participant governments by their own will largely follow the example set by the United Kingdom both as to the methods and to the extent of the restrictions. The main difference in the degree of discrimination is due to the regulations applied between the participant countries themselves. The United Kingdom has always adhered and still adheres to complete freedom of payments with the whole Sterling Area, whilst most of the other participating countries are presently imposing payments restrictions even on their transactions within the Area.

b. The second feature of the bilateral payments agreements of the United Kingdom with each of the participating countries is the mutual grant of swing credits, in most if not in all cases without limitation of the amounts. The method is the same as used in the IMF. The country in need of means of payment in currencies of other participant countries "buys" such currencies against its own currency. The "selling," i.e. lending country (its central bank), gets a foreign exchange credit in the money of the "buying," i.e. the borrowing country (with its central bank). Although the swing credits only run between the United Kingdom on the one side and each individual participating country on the other side, a sterling country seems to be able to obtain funds of other sterling countries by purchasing, i.e. borrowing, pounds sterling and using them to acquire currencies of other sterling countries.

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The views expressed here are those of the author and do not reflect those of the United Nations or the Swiss Government.

c. The third element of the Sterling Area is what is usually though not accurately called the "dollar pool." It refers to the fact that as far as the receipts of fully convertible foreign currencies such as American and Canadian dollars are concerned, the participant governments and their central banks do not act separately; the receipts of such currencies are somehow considered as forming part of a common fund or pool whose use by the individual participating countries forms the subject of continuous common deliberations and decisions. It does not follow therefrom that the participant countries actually turn over all their dollar receipts to the Bank of England nor that every single dollar transaction anywhere in the Sterling Area is subject to common consent or to the consent of the Bank of England. However, we may safely assume that in their dealings with gold and dollars the participating governments are in a general way adhering to a set of principles and rules which have, under the leadership of the United Kingdom, been established by common understanding and are by common understanding and compromise continuously adjusted to changing conditions and exigencies.

d. The regulations on payments within the Sterling Area vary from country to country, although most payments are no doubt made in sterling, i.e. by transfers between accounts in sterling carried with London banks. The United Kingdom and Australia for instance admit payments to and from the Sterling Area in the currency of any participating country. Pakistan only admits payments in Pakistan rupees or pounds sterling whilst India-Pakistan trade is wholly conducted in Indian or Pakistan rupees.

e. Finally let us shortly consider the Sterling Area in the light of its political and economic context.

Except for the non-participation of Canada and the participation of some additional countries, the Sterling Area comprises the former British Empire, i.e. countries closely linked to one another by century-old historical ties. For almost all the participating countries the trade between themselves far outweighs their foreign trade in all other directions. For almost all of them the sterling countries still constitute the main market for their products and the main source of supply; their trade with other sterling countries and with countries outside the Sterling Area is still mostly conducted through London. First of all, the discriminatory monetary cooperation in the Sterling Area should be understood in the light of the equally discriminatory commercial cooperation in the Ottawa scheme of preferential customs duties comprising all the former Empire countries participating in the Sterling Area plus Canada. Ever since 1931 Philippine copra has been in the United Kingdom subject to an import duty of 10 per cent whilst Ceylonese and Malayan copra enters the English market free from duty.

The monetary cooperation itself did not at all begin in August 1939, but merely took a new form. Each of the Commonwealth countries had at some time in its history found itself almost in a monetary union with the United Kingdom. All the Sterling Area countries still carry their monetary reserves mostly in sterling, which in turn implies that the gold and dollar reserves of the United Kingdom—the backbone of the present dollar pool—serve as the common reserve of the whole group.

B. Payments to and from Countries Outside the Sterling Area

The policy of the Sterling Area countries affects the outside world mainly in two respects:

(1) that those countries, whilst maintaining between themselves a high degree of freedom with regard to the

movements of goods and services, are imposing discriminatory restrictions on the visible and invisible trade with the rest of the world, especially on the import side;

(2) that, whilst maintaining a high degree of freedom for capital movements within the Area, the participating countries apply heavy restrictions to the export of national capital, the repatriation of prewar foreign investments in the Area, and the current inflow and outflow of foreign capital.

Trade restrictions towards the outside world are effected through autonomous systems of import licenses. They result in a second set of discriminations insofar as the restrictions are not equally applied to all the outside countries. The countries subject to the most severe import restrictions are those with American account sterling (commonly called the "dollar area"), whilst greater freedom is generally accorded to the countries with "transferable sterling" (the "transferable account area"). The pattern of the license system varies widely from one sterling country to another. The United Kingdom actually admits a number of goods on the basis of "world open general licenses" (which permit any importer to import the said goods in any quantity from any country), other goods on the basis of "open general licenses" (permitting any importer to import the said goods in any quantity but from specified countries only). The "open individual license" permits an individual person or firm to import certain goods in any quantity from specified countries, whilst an "individual import license" permits a specific import transaction by a certain person.

The prohibition of outgoing capital movements severely affects old foreign investors in the Sterling Area. Some countries may suffer from being precluded from the British capital market. But the people mostly affected are really the residents of the participant countries who find themselves greatly restricted in the use they can make of their money, at least in comparison to the residents of countries with fully convertible currencies such as the United States or Switzerland.

The prohibition of the outflow of capital (including the repatriation of foreign capital) on the one hand and the special discrimination between two groups of non-sterling countries on the other hand are the two main factors which make the British payments regulations so complicated both with respect to foreign currencies as well as the pound sterling itself.

1. Common features of the exchange regulations

In the next paragraphs we shall successively consider the exchange regulations as applied to the two groups of non-sterling countries. There are, however, some common features which may be examined together:

a. The prohibition of the outflow of capital inevitably implies the compulsory surrender of foreign exchange receipts to some public agency. This is common to all participant countries.

b. In most of the Sterling Area countries the international payments are "decentralized." They are channelled through a great number of British private "authorized" banks in the Area in association with equally "authorized" private foreign banks outside of the Area, i.e. British and foreign banks approved by a Sterling Area government. Like watchdogs the authorized banks within the Area are responsible to the supervising central banks for ensuring that the payments transactions which they undertake on behalf of their customers within and outside the Sterling Area—including authorized foreign banks—are carried through in strict observance of the national payments regulations.

c. Whilst by far the largest amount of current payments to and from the outside world is made in pounds, with a small amount in dollars, it may be mentioned here that the regulations of most of the Sterling Area countries in principle admit payment in the currency of either of the countries concerned. Thus the British law[†] would allow Philippine-British commercial transactions in pesos; Pakistan might admit Philippine-Pakistan commercial payments in Pakistan rupees or in pesos. In the case of the United Kingdom that provision applies on the one hand to those countries with whom Great Britain has entered into bilateral payments agreements (which is the case with all the members of the European Payments Union) and on the other hand to the countries comprised in the dollar area.

d. As already stated, all the countries of the Sterling Area prohibit capital movements to countries outside the Area, or rather subject them to a severe control requiring specific government approval of the individual transactions, which is very rarely obtainable. The United Kingdom makes an exception to the rule by normally granting approval for commercial investments which are considered advantageous to the British economy in general. Similarly, permission may be obtained in the United Kingdom to re-invest capital receipts in foreign currencies in marketable securities expressed in foreign currencies. All such investments remain subject to a continuous control.

The prescription on the repatriation of foreign capital invested prior to the war vary between the various countries of the Sterling Area. In some of these countries they also vary with respect to the foreign countries concerned, but generally not along the famous line between the dollar area and the transferable account area. Thus the United Kingdom and India grant a favoured treatment to the 'h' Scandinavian countries—Denmark, Norway, and Sweden, whose residents are free at any time to take their capital out of the United Kingdom or India either by being credited in sterling on transferable accounts or by receiving credit in their national currencies. Residents of other countries can also be paid in their currencies or in sterling related to their countries (i.e. on American or transferable accounts), but only with respect to matured capital. In all the other countries of the Sterling Area the repatriation of old investments is very difficult and subject to administrative decisions taken on the merits of individual cases.

2. The countries with American account sterling

The countries with "American account sterling" as a whole are commonly called the "dollar area." This area presently comprises Bolivia, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Liberia, Mexico, Nicaragua, Panama, Philippines, Salvador, United States and possessions, and Venezuela. Canada is practically treated on the same footing.

The only clear denominator common to all these countries is that they figure on the list of the countries with American account sterling as established by the Bank of England on behalf of and in accordance with the British Treasury, and that none of them actually has any payments

agreements with the United Kingdom nor with other countries of the Sterling Area. It may furthermore be said that in the monetary policies of all those countries the United States dollar plays a special role, be it with respect to the fixation of the rates of exchange, the maintenance of international reserves, and the payments habits in foreign trade. But apart from these common features some countries possess a convertible currency and others do not; some apply payments regulations and others do not; some have payments agreements with some countries and some have not.

As the term implies, the United States (and Canada) forms the nucleus of the group. The special rules now applying to the whole group have historically all been developed by the United Kingdom with a view to British-American economic and trade relations. The other countries—all incomparably less important to Great Britain—have subsequently been added to the list.

As regards the treatment accorded to the dollar area countries by the Sterling Area, it has already been explained that more severe restrictions are applied to the imports from them than from other non-participating countries. They are twice discriminated against, once in comparison with the trade between Sterling Area countries, and a second time in comparison with other countries outside of the Sterling Area. The reason for the two-fold discrimination is that the balance of trade and the balance of payments between the Sterling Area countries and the dollar area, especially the United States and Canada, have during and after the war been more heavily out of equilibrium than with any other country so that, as it is usually, though misleadingly stated, the dollar has become "scarce." As to the countries comprised in the dollar group the restrictions actually affect some of them more than others. The British ban on the importation of automobiles from dollar countries hardly bothers Guatemala or Cuba.

On the payments level the essential feature is that a licensed import from the dollar area implies the permit to pay for the imported goods in United States (or Canadian) dollars; the license constitutes an authorization to the importer's bank to pay the foreign exporter residing in the dollar area in dollars. Alternatively, the parties may agree on payment in pounds sterling. For that purpose the British regulations permit persons or firms residing in dollar area countries to receive payment on special sterling accounts called "American accounts," carried with authorized British banks. In view of the fact that the owners of such accounts would originally have been entitled to be paid outright in dollars, the regulations provide that the said banks may at the request of the owners even afterwards remit dollars, that is convert the pounds into dollars, on the basis of the official IMF rate (1£ = \$2.80 corresponding to 2.82 buying and 2.78 selling), the Bank of England being prepared, in case of need, to supply the dollars at that rate. Similarly such pounds may be used to purchase gold through the London market. In that way there exists a special category of pounds sterling called "American accounts sterling," which are fully convertible into dollars and gold with any authorised British bank at the IMF parity rate. These pounds sterling, apart from being convertible in the sense just described, can be used for the following purposes: (1) for transfers to other American accounts; (2) for payments for any purpose to any resident of a Sterling Area country; (3) for transfers to sterling accounts of residents of practically any country in the world (see hereafter). The IMF sums it up in the statement that American accounts "may be debited freely for payments to any sterling account." Owing to the transferability between American accounts, the American

[†] According to the British regulations this is true provided the peso is "freely transferable to England." The said qualification apparently implies that the pesos received by British firms (which must cede them to British authorized banks) can freely be converted into pounds sterling. This in turn would imply:

a. that Philippine banks may maintain pound sterling accounts (evidently only "American account sterling") and may buy and sell such sterling;

b. that Philippine banks may open special peso accounts for British banks which can freely be used for the purchase of pounds sterling from the accounts established as per (a).

None of the conditions actually exists in the Philippines.

account sterling is freely traded in and between most of the countries included in the dollar area, and may thus be used as a means of payment between them, the main trading place naturally being New York.

It will be seen hereafter that only American account sterling (and "registered account sterling" to be dealt with later) enjoy all the possibilities outlined above. Pounds sterling cease to be convertible if and when they are transferred from American accounts to other types of accounts. This naturally requires that (apart from the payments for licensed imports from the dollar area) pounds sterling must not be transferred nor retransferred from other accounts to American accounts since they would then indirectly become convertible. Hence, the permanent concern of the British monetary authorities to keep the curtain between the American sterling accounts and all the other Sterling accounts as tight as possible and to make sure that no pounds are credited to American accounts except in payment of dollar imports into the Sterling Area, that is, imports for which the monetary regulations would allow outright dollar payments as explained above.

Incidentally, the short-lived "convertibility" of the pound sterling in midsummer 1947 had practically only implied the authorization by the United Kingdom to non-residents outside the dollar area to transfer sterling from their transferable accounts to American accounts. The experiment, reluctantly undertaken against strong advice, in fulfilment of a commitment to the United States in connection with the dollar loan of 1946, failed because the amount of pounds for which conversion into dollars was asked far exceeded all expectations and threatened completely to exhaust the British gold and dollar reserves within a couple of months.

3. The transferable account sterling

Most of the commercial payments between the Sterling Area countries and the outside world other than the dollar area, are made on the basis of bilateral payments agreements. On the side of the Sterling Area the contracting party is usually the United Kingdom, but there also exists a number of payments agreements entered into by other sterling countries.

As already stated, many of such agreements provide for payments in either currency of the countries concerned. However, in the case of all the countries outside of the dollar area, whether there are payments agreements or not, payments are mostly made in pounds sterling over accounts carried by the residents of the said countries (or by the respective central banks) in London. The British official term is "transferable account." One frequently speaks of the "transferable account area" in the same sense as one speaks of the dollar area. According to the British exchange regulations, the British banks dare not convert the balances of such accounts into gold or dollars, that is they are not convertible within the United Kingdom nor may the banks transfer them to American accounts (which would indirectly make them convertible). They can be used for (1) payments for any purpose to any resident of a Sterling Area country, and (2) transfers between transferable accounts, i.e. for payments between the countries of the transferable account area. Whilst the transferable accounts differ from the American accounts insofar as their balances cannot directly be converted into gold or dollars nor be transferred to American accounts, they differ from the normal bank accounts of Sterling Area residents in that transfers from resident accounts to transferable accounts (which would furnish the opportunity for outgoing capital movements) are not allowed except for commercial payments of licensed imports.

The transferability of sterling between the countries of the transferable account area naturally implies that sterling is traded between the said countries. In places where dealings in foreign exchange are free, this must lead to a regular market for transferable sterling and to free rates of exchange (Zurich, Tanger, etc.). If such places also admit the purchase of dollars (for instance, Zurich), it follows that an owner of transferable sterling may eventually get dollars for them; though he cannot as in the case of American account sterling, convert them in the United Kingdom at a fixed rate of exchange, he can sell them outside of the Sterling Area at free market rates. Let us add that, in apparent contradiction with the foregoing, transferable sterling is presently freely traded in New York and that New York market rates for such sterling are an important factor in international trade. The explanation is that although British banks may not open transferable sterling accounts in the name of American banks, the latter find it easy to make transactions in transferable sterling either through branch offices or through correspondent banks located in countries of the transferable area.

Up to 1954 the rate of exchange of the transferable sterling fluctuated very widely. Rates of \$2.50 (compared with the official parity of \$2.80 applying to the American account sterling) were not unusual. However, in spring 1955 the Bank of England was authorized to interfere in the market of transferable sterling by means of the Exchange Equalization Account, for the purpose of stabilizing the rate as close as possible to parity. The Bank presently does so by buying transferable sterling through the Zurich market for dollars and gold, whenever the offer of transferable pounds tends to bring the rate below a certain limit which seems to be around \$2.76. Rates of as much as \$2.78 are not unusual. One reason for this stabilization policy has to do with the famous switch business. When the pound drops below a certain point, it becomes profitable for American importers to buy British goods through countries like Holland or Italy, which enables them to make payment in the cheap transferable pounds. Whereas an import of £1000 worth of British goods would in a direct transaction with the United Kingdom cost them anything between \$2780 and \$2800, the importation by way of a Dutch trading firm opens the way for the payment in pounds from a transferable account at less than \$2780. Since such switch transactions evidently mean a loss of direct dollar receipts for the United Kingdom, the Bank may just as well spend the dollars for purchasing the transferable pounds; by doing so it stops switch transactions whilst obtaining the additional advantage of stable rates of exchange.

4. Registered accounts and blocked accounts

Both types of accounts to be examined in this paragraph are of far less practical importance than the types outlined in the preceding paragraphs.

a. A resident of a country outside the dollar area and the Sterling Area, i.e. a resident of the transferable area, may have the opportunity and interest to acquire sterling of the American account category against gold or dollars, especially in connection with gold transactions in the London market. In order to comply with such requirements the British authorized banks are allowed to buy American or Canadian dollars from the said groups of residents and to credit the sterling proceeds to "registered accounts" which have exactly the same status as American accounts.

b. The reader will recall the remarks made on the possibilities of repatriating prewar investments. As far as the United Kingdom is concerned the present regulations

must have the result that eventually all such investments will become repayable either in the currency of the investor or by credits in the category of sterling relating to his country. Pending this stage the proceeds from sales of such investments can only be credited to "blocked accounts." The balances on such accounts, called "security sterling," may be used for reinvestment in certain types of British securities. They are freely transferable from one blocked account to another regardless of the domicile of the owners, which implies free trading in such security sterling in free markets outside the Sterling Area.

C. British Commodity Markets

As was shown in preceding paragraphs, the sterling balances on the transferable accounts are the result of the visible and invisible trade between the Sterling Area countries and the countries authorized to carry transferable sterling accounts, as far as the said trade is transacted on the basis of sterling. An increase of the sterling balances reflects an excess of Sterling Area imports and incoming services over exports and outgoing services, and vice versa.

The authorization given to the Bank of England in February 1955 to buy transferable sterling outside the Sterling Area for dollars or gold signified that in the case of unfavourable trade balances with the transferable account area, as expressed in increasing transferable sterling balances, the Bank could draw on the dollar earnings and the inflow of gold from the South African and Australian gold mines to cover the trade deficit incurred with the transferable account area.

Already prior to February 1955 some important steps had been taken in the field of commodity trading with very similar monetary effects. For a successively increasing number of commodities—today the list comprises copra, rubber, copper, lead, tin, and zinc—permission is given to British traders to sell them anywhere abroad for sterling regardless of origin. That is to say that such goods, even if purchased from dollar area countries, may be resold to transferable account countries for transferable sterling. Similarly cacao, coffee, and raw sugar, if imported from the dollar area, may be resold to the transferable account area for sterling.

The commodity schemes have very much the same result as the purchase of transferable sterling for dollars and gold. For the United Kingdom both types of transactions imply a parallel decrease of the dollar reserves and of foreign sterling balances. From the point of view of transferable account countries both types of transactions lead to the use and reduction of their sterling balances and a corresponding increase of dollar holdings through dollar earnings or the saving of dollars.

For the United Kingdom, the introduction and subsequent extension of the commodity schemes—like the eventual use of dollars and gold for the purchase of transferable sterling—a move towards a broader use of sterling by non-residents and a further approach to sterling convertibility for non-residents. The commodity schemes offer the additional advantage of restoring London as a world market center. When appreciating the effects of both the commodity schemes and the Bank's purchases of transferable sterling on the British foreign exchange budget, one should not forget that the said measures were taken at the time when the European Payments Union was already in force. Since in the EPU the United Kingdom is anyhow obliged to cover an important part of eventual deficits in gold or dollars (from 75% to 100%), the purchase of transferable sterling for dollars and the resale of dollar goods for transferable sterling must to some extent be looked

upon as an anticipated amortization of dollar commitments to the EPU. In the case of a reversal of the British indebtedness to the EPU the Bank of England would naturally cease buying transferable sterling and might possibly re-examine the present commodity schemes.

D. The Question of Sterling Convertibility

From what has been said in this paper on the present British exchange regulations, the residents of countries outside the Sterling Area may conclude that to all practical purposes their trade with the Sterling Area is actually carried out on omnilateral¹ basis in the sense that the proceeds from the sales of goods and services to the Sterling Area may be used for any purpose in any part of the world. Except for the security sterling in blocked accounts the de facto situation could not be much different if there was full direct convertibility for all non-residents' accounts.

The main material difference between the present conditions and the conditions prevailing during the "convertibility" period of midsummer 1947 lies in the fact that in that year the omnilateral use of sterling was also granted to the non-English countries of the Sterling Area whereas the latter are presently excluded therefrom. There is a pronounced formal difference in that August 1947 transferable sterling could be freely transferred to American accounts for payments to the dollar area or for the conversion into dollars whereas today an owner of transferable sterling who wishes to use the sterling for making payments to the dollar area must first sell the sterling for dollars in free markets within the transferable account area (always of course as far as he can do so under the exchange regulations of his own country).

The student of the British exchange policy may be bothered by two particular questions:

1. The first question concerns the maintenance of the formal difference between American and transferable accounts which was just underlined. At first glance the reply seems to be that the United Kingdom wants to keep the door open for separating the two groups again whenever this should become advisable; as things stand now, the Bank of England could to some extent do this in a most discreet way merely by reducing or stopping the purchases of transferable sterling. But why should the United Kingdom want to maintain the two categories of accounts at all? The answer to that question must be sought in the general British philosophy of today's world commerce. If British foreign economic relations ever since 1914 show a strong tendency towards disequilibrium, it is thought that this tendency is specially strong in the American sector. British economists are particularly afraid of the repercussions on the rest of the world of the highly restrictive commercial policy and the customary fluctuations in employment and national income in the United States. There is a widespread belief (even in the United States) that the world would have to meet such American developments by common discriminatory measures against the United States. The provisions of the International Monetary Fund on scarce currencies is an outcome of such thinking.

2. Our second question concerns the residents' convertibility. Until very recently convertibility meant the right for a holder of a currency to have it at any time freely converted by the bank of issue (central bank) into any other currency or into gold at the official parity. After 1914 events taught us to distinguish convertibility into

¹ Some authors use the term of plurilateralism for regional multilateralism (for instance in connection with EPU) and 'multilateralism for world-wide multilateralism. Since the two latin terms have quite the same meaning it seems preferable to replace the term multilateralism by the term omnilateralism where world-wide multilateralism is meant and to use the term multilateralism in a regional sense.

foreign currencies from convertibility into gold (the United States and Switzerland actually maintain currency convertibility but not gold convertibility except for foreign central banks). We also came to distinguish, from the point of view of a central bank, between compulsory convertibility at parity and the mere admission of convertibility at free rates of exchange. But it was for the British to conceive of residents' convertibility as distinct from non-residents' convertibility. Even now there is probably no other people in the world who would not want convertibility especially for themselves. When the Europeans began discussing convertibility in 1953-'54, it took them quite some time, even within circles managing EPU, to realize that the British had changed the textbook-meaning of convertibility. There was much confusion on that account. The explanation, of course, lies in the fact that the continental nations never had to worry about their currencies functioning as means of payment throughout the world, whilst the British, when introducing exchange regulations, were naturally led to distinguish between the pound sterling as a means of internal payments and as a means of payment in commercial and financial operations over the world.

The real question of British residents' convertibility concerns capital movements. Residents' convertibility would be tantamount to the freedom to acquire bank balances and securities and to make investments of any type outside the Sterling Area, i.e. practically the freedom for the export of capital to the dollar area. The answer lies largely in the fact that the British balance of payments and reserve position simply does not allow such a course of action. This statement must be understood with reference to the

broad economic and political targets to which the United Kingdom is devoted (and which are no concern of countries like Germany, the Netherlands, etc.): economic growth and high living and social standards at home, a keen and effective economic financial solidarity with all the members of the Commonwealth, implying a continuous outflow of capital towards these countries, the maintenance of sterling as a means of international payments within and without the Sterling Area, the heavy material sacrifices involved in safeguarding the British position in world politics.

No doubt the British payments regulations have always been and still are dictated by balance of payments difficulties. What distinguishes the British case from all others is that the United Kingdom, whilst struggling with balance of payments difficulties, at the same time endeavours—with remarkable success—to have the pound sterling continue functioning as the principal commercial currency in the world and at the same time as a strong link between the nations of the British Commonwealth. The British payments regulations cannot fully be understood unless one keeps the two goals—often contradictory to each other—well in mind. If in the thirties Dr. Schacht, as German minister of finance, taught the world how to maintain the effective rates of exchange above the equilibrium rates through shrewd payments regulations, the British Treasury and the Bank of England taught the world how to maintain, by intelligent payments regulations and great civic discipline, the world position of their national currency in spite of the loss of the essential prewar requisites, viz. almost unlimited direct and indirect foreign exchange reserves and a high rate of national capital accumulation.

Tabulation of the various sterling categories

	Sterling Area Residents' Accounts	American Accounts	Non-residents' Transferable Accounts	Registered Accounts	Blocked Accounts
Rates of exchange quoted in New York on January 3rd, 1957 in US\$ per pound sterling *	—	2.7875	2.7510	2.7875	2.595
Free convertibility into dollars and gold through British banks	no	yes	no	yes	no
Free transferability to:					
Sterling Area residents' accounts	yes	yes	yes	yes	no
American accounts	no	yes	no	yes	no
Transferable accounts	no	yes	yes	yes	no
Registered accounts	no	yes	no	yes	no
Blocked accounts	no	yes	yes	yes	yes
The free convertibility and/or transferability as outlined above results in:					
(a) The possibility for free conversion into dollars					
at parity (through British banks)	no	yes	no	yes	no
at fluctuating rates for transferable sterling (outside the United Kingdom)	no	—	yes	—	no
at fluctuating rates for security sterling (outside the United Kingdom)	no	—	—	—	yes
(b) The free use for exports from Sterling Area to respective country	yes	yes	yes	yes	no
(c) The free use for exports from dollar area to respective country	no	yes	no	yes	no
(d) The free use for exports from transferable account area to respective country	no	yes	yes	yes	no
(e) The free use for investments in the United Kingdom	yes	yes	yes	yes	yes

(for special types of securities only)

* British bank notes were quoted at 2.70.

PROGRESSIVE ECONOMY OF BRITAIN

By W. T. C. King

Recent economic news has provided conclusive evidence that the general level of economic activity within Britain is mounting again, for the first time since the disinflationary measures initiated early in 1955 began to take effect. The characteristic of this phase of disinflationary policy, unlike that of 1951-52, was not an actual contraction of the economy but simply a halting of its expansion—in spite of the much higher interest rates and tougher monetary policy in general that have been brought into play as the means of applying the brakes.

In 1952, when Britain's own effort at disinflation was strongly reinforced by world tendencies—because of the general reaction from the extravagant boom that followed the outbreak of the Korean war—there was an actual decline in the volume of industrial production, by rather more than 2½ per cent. The volume in 1956 was approximately the same as in 1955 (at roughly 20 per cent. more than in the 1952 trough and 37 per cent. more than in the base-year of the index, 1948). The seasonally corrected monthly index shows that this phase of stability began in the summer of 1955 and lasted until the early months of this year, during which the index was pivoting upon 136-37. In April last it moved up to 138, and for May it is now provisionally estimated at 139-40.

This expansion is very welcome, for until it was disclosed by the index figures published a couple of days ago a number of commentators had been professing concern at the supposedly unbalanced character of Britain's revival: it was, they said, much more clearly marked in the indicators of demand than in those of production, and thus carried with it the danger of the return of inflationary pressures.

In spite of the continued expansion in some industries and the recovery in others—notably automobiles—from the setback of last year, aggregate industrial output in the first quarter of this year was no higher than that for the first quarter of 1956. But in that quarter, as this past month's batch of statistics have shown, outlays on both consumption and on industrial investment were substantially bigger than in 1956.

Consumers' expenditure showed an increase of some seven per cent., which after allowance for price-increases represented a real expansion of about four per cent., a notable change from the stability shown last year. Then, it may be recalled, a much faster rise in wages than in prices was associated with a big growth of personal savings and hardly any rise in consumption, thanks to the hire-purchase restrictions, the credit squeeze and the effects of the Suez crisis on particular expenditures.

The net result was a strengthening of consumer finances, and this year there has evidently been a reaction from this phase of restraint; especially in view of the recent wage increases it would not be surprising if the second-quarter figures show a further expansion.

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There is no sign of the contraction of investment outlays that has been so long foreseen by some of the economic seers: the official estimates put the outlays by manufacturing industry on fixed investment in the first quarter of this year at ten per cent. more than in the first quarter of last year. This is admittedly an appreciably smaller rate of

growth than that shown through 1956; but that was a boom year, so that actual outlays, as distinct from forward plans, are still running at the peak—not more than half the latest increase in estimated expenditure need be attributed to higher prices and wages. Moreover, there are some signs that investment plans, held back during the Suez crisis, are now coming forward again.

The third major sector from which an important increase in demands upon the economy has come is, fortunately, that of exports. Aggregate exports in May reached a new record, with a further notable growth in those to the dollar area, thanks in particular to the excellent performance of the automobile industry. Over the first five months of the year the expansion amounts to seven per cent. This good performance has provided an important offset to the strains put upon the balance of payments by the Suez crisis. The visible balance, as shown by the trade returns (with imports valued cost, insurance, freight, exports free on board), has of course deteriorated, but the increase of £56,000,000 in the deficit shown on this basis for five months has been very much less than the total surplus (including net invisible income) of £154,000,000 earned on current transactions in the first half of 1956.

This visible deterioration in the trade gap does not, of course, measure the whole of the Suez burden: it reflects the sharp increase in the prices paid for oil imports and other effects upon the terms of trade, but naturally does not reflect the important losses of international earnings suffered by the oil companies. Even so, this comparison shows that there is a good chance that the balance of payments as a whole was still in moderate surplus during the first half of 1957—which is an incomparably better result than anyone would have dared to predict last autumn.

The trend of the external accounts in recent months has, however, given rise to some concern, because imports have been rising much faster than exports. A substantial part of this deterioration has been due to the special oil costs, now beginning to run off (the price index of imported fuels dropped in May by nearly five per cent.). But it remains a very open question whether the re-stocking process that is the expected accompaniment of the new expansion of domestic output can be accommodated side by side with the hoped-for rebuilding of the external surplus.

The detailed trends of the balance of payments, like those of domestic demand, will need to be watched with increasing care as the revival proceeds. Up to date, however, there is no reason to feel that new inflationary pressures are arising.

An increase in coal prices threatens some renewed rise in other basic costs after the relative stability of the past year, but this tendency cannot fairly be attributed to any excessive pressure of domestic demand, nor is this demand, in the consumer goods sectors at least, cutting into supplies that might go to export markets.

* * * *

The immediate export prospect looks good, and most sectors of British industry seem well able to seize their opportunities. Moreover, the notable expansion of capacity achieved recently in the steel and coal industries relieves the economy at two points that were the source of sharp strain during the recent boom, when the high level of in-

dustrial output could be supported only at the cost of heavy imports of high-priced coal and steel products.

Hence, as the quarterly Bulletin issued by the London and Cambridge Economic Service recently remarked, "the immediate outlook is for an advance in production, with no crisis in the balance of payments"—but with some dangers lurking ahead. The Bulletin concluded: "But we shall probably not be able to forget for long what Professor Tress (in a separate article in the Bulletin) calls 'the harsh fact in our experience', namely, that although some markets, including the labour market, have noticeably eased, wage demands and wage increases appear to be continuing unabated."

Thus there is still some danger of a rise in United Kingdom costs, and therefore some threat to the balance of payments, even though the revival of demand is kept from mounting, to the point of overstrain. The big question in this sphere is whether the recovery of output, and the technical advantages from a record volume of completed industrial investment, will enable the key export industries to absorb the effects of these wage pressures without raising their selling prices—or at least without raising them faster than their competitors are doing.

In many commentaries recently, these trends of Britain's economy have been examined with particular reference to the problems of the Commonwealth and sterling area. It is evident that at this juncture economic issues are of more than usual importance and prominence in Commonwealth relations, notably because of the changing character of Britain's defence effort, the plan to join an industrial free trade area associated with the European Common Market, and the new problems of Commonwealth investment.

In most unofficial discussions it is perhaps upon the last of these three groups of problems that the spotlight has been mainly focused. Britain plainly cannot hope for some time to come to have any larger volume of resources available for external investment than she has contrived to find in recent years, and in the immediate future priority has to be given to the rebuilding of the gold and dollar reserves—in the interests of all members of the sterling system. This may mean, indeed, that the amounts available for long-term investment may actually be less, because part of the funds made available in this form has in most years been provided either at the expense of the gold reserve or by re-borrowings on short-term, either from European Payments Union or by way of accumulations of overseas-held sterling balances.

As has often been pointed out, within the sterling area a variety of circumstances led to a steady increase in the balances due to the dependent territories, side by side with a declining trend in the aggregate balances of the independent territories. The conditions that led to accumulations by the first group have been diminishing in force for some time, and in 1956 the colonial balances rose only from £1,280,000,000 to £1,286,000,000 (whereas in the three preceding years they had grown by more than £250,000,000), while those of all other sterling territories declined by £25,000,000, to £1,574,000,000.

Now the advent of Ghana, and the close approach of other territories to independence, draws particular attention to this changing relationship. These territories, with their high aspirations and schemes for a quickening of development, not only have big appetites for long-term capital but seem likely soon to draw down rather than increase their sterling balances. Yet big demands can still be put upon the sterling system by the older territories. Within the past two years, first Australia and then India have

imposed very heavy strain by a rapid running down of balances.

The problems of ensuring the maximum flow of capital without risk of overstraining the whole system, and of utilising the limited resources to best advantage, are of critical importance—but they are very intractable. It may be, as many believe, that they will never be tackled adequately until improvements are made in the mechanism for consultation and decision. My own opinion, however, is that the possible benefits from some of the innovations of mechanism and procedure now being canvassed are greatly exaggerated.

Provision of new financial mechanisms will not provide new finance. It is the underlying resources that are deficient; there is no evidence of deficiency in the apparatus for canalising the available resources. The financial mechanisms of the City of London are as fitted to this task as ever they were, and British banks operating overseas have never been more alert to the needs of emergent territories than they are now.

Moreover, to these facilities there have been added since the war the special mechanisms of the Colonial Development Corporation, the Commonwealth Development Finance Corporation and—quite recently, and on the international plane via the World Bank—the International Finance Corporation, not to mention the activities of the World Bank itself.

It would be foolish to suppose that the underlying problem could be solved, or even perceptibly eased, by the addition of some new Commonwealth "Bank"—whatever that may mean—to these proved organisations. Much more to the point is the appeal for some central rationing body—but any such formalising of relationships at such a delicate part would be contrary to the traditions of both Commonwealth and sterling area. The virtue and strength of both has been the flexibility and give-and-take maintained in most of their relationships.

THE COMMUNIST SYSTEM AND DIFFERENT ROADS TO SOCIALISM

The best form of immunisation against Communism is to experience it—outside the ranks of the elite who batten on and exploit it; and the most bitter foes of Marxism are Communists who have become disillusioned and have renounced it. There was a saying once that the ex-Communists would do more to destroy Communism than any other single factor. Many will still remember the Pronouncement of the Seven: the outstanding international Communists of various countries who repudiated it. Now we are told that Life Magazine is to publish shortly quotations from the book "The New Class" written by the celebrated Yugoslav Communist theoretician Milovan Djilas, the former close associate of Marshal Tito who has been in prison for a considerable time.

The book was smuggled out of Yugoslavia in two parts and is described by the well-known British expert on Russian and Communist affairs, Mr. Edward Crankshaw, as "probably the most devastating anti-Communist document ever written." Djilas was former Speaker of Parliament and Propaganda Minister, now serving a sentence of three years for hostile propaganda against the State, and his book is described as "a classic exposure of the Communist system." Crankshaw says the general thesis of the book is that the Communist leadership is simply a new class of exploiters and nothing else—"a class whose power over men is the most complete known to history. Because of its totalitarianism and monopolism, the new class finds itself unavoidably at war with everything which it does not administer or handle, or must deliberately aspire to destroy or conquer it." The new class, he said, was being called into being by the need to industrialise backward and agrarian countries unless they were to go under. This end, and this end only, it had achieved. But, having achieved industrialisation, the new class can now do nothing more than increase its brute force and pillage the people.

Milovan Djilas shows that Communist rule is essentially a despotism in which a relatively small group that has monopolised all levers of power feeds parasitically upon the fruits of the labour of the great mass of the citizenry in each Communist country. The class of Communist rulers is one "whose power over men is the most complete known to history." Its one constructive contribution, industrialisation in backward countries, is more than offset by the enormous price it exacts of its subjects, so that, as Djilas puts it, "men will marvel at the grandiose ventures it accomplished and will be ashamed of the means it used to accomplish them." Today in Russia Marxism has become "a theory to be defined exclusively by Party leaders." The importance of the book is not only in the brilliance of its analysis but in the fitness of its timing. Today, from the Elbe to the Pacific, from Warsaw to Moscow to Peking, millions are looking for an answer to the questions: What went wrong? Why did the Utopian dream of communism turn into the living hell of Stalin? Why does even Khrushchev, the most vocal anti-Stalinist of them all, retain and defend so much of Stalinism?

Djilas answers these questions with a brutal honesty that exposes the hypocrisy of the alternative answers given by Mao Tse-tung's talk of "non-antagonistic contradictions" or Khrushchev's chatter about "anti-party elements who separated themselves from the people." The ideas that Milovan Djilas put into his book are beginning to make their

way round the world to batter at the ramparts behind which he and millions of others are kept prisoners. Chinese university students have not yet read it, and if any of them had the temerity to ask the Yugoslav Vice-President Svetozar Vukmanovic-Tempo, the planning and economic chief of his country, what he thinks about the book when he visits China during his two months tour of Asia and the Far East, the answers would not be very cordial. In any case his mission is chiefly one of trade though the Chinese Communists will no doubt consult him on many problems, both economic and ideological. Many of the ideas Djilas ventilated, notably his denunciation of Communism as "a form of despotism far worse than that of the absolute Monarchist rule it replaced in many countries" and his attack on the new privileged classes, found expression in the recent criticisms in China.

Yet it is from Yugoslavia that Peking is taking guidance, in pursuance of a policy which seeks to widen China's knowledge of the experiences of other Communist States. More and more China and the Soviet Union are deviating from a common path. Basic differences, including stages of development, make this inevitable. And just now the economic centralisation which the Soviet Union is breaking up under the Khrushchev policy cannot or will not be abandoned in China, which is much too nervous of the consequences of decentralisation. It would certainly have to make far-reaching concessions alike to Mukden and to Shanghai if it adopted the policy now followed in Russia, and it lacks the incentive which the powerful First Secretary has in Moscow to fragmentise the monolithic technocratic machine built up by Malenkov.

In any case Peking certainly prefers to retain complete control of the economic machine in the capital until the second five year plan is through, by which time it will be able to see more clearly just how M. Khrushchev has fared in his gigantic reorganisational reform. Peking has been talking endlessly about the evils of bureaucracy without doing anything very drastic about overcoming it. Nobody can tell whether the splitting up of the huge economic mechanism in Russia into over 100 economic councils (Sovnarkhoz) in as many economic areas, most of them with staffs of from 2,000 to 3,000, to supervise the 200,000 most important plants and factories of the Soviet Union will relieve the problems of production and excessive red tape or multiply them in a new kind of chaos. It will be certainly a great thing for the Kremlin and for M. Khrushchev in particular, if he gets away with it—though it may well be supposed that the army of experts he has so brutally kicked out of their comforts in Moscow will never willingly co-operate and may even maliciously sabotage this vast experiment. The abolition of the 25 central industrial and construction Ministries and the dispersal of their staffs to the economic areas will, however, entail an increase in the central planning and control organs; and nobody can tell how that will work out either.

But while thousands of ministerial bureaucrats, numbering scores of thousands, and their families have to try and find themselves new housing and office accommodation in overcrowded provincial and industrial centres, the success of the reorganisation scheme will depend more and more on the enlargement of the powers of the factory directors. The opinion is held that unless these key men in Soviet

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REPORTS FROM CHINA

"ANTI-RIGHTIST" STRUGGLE

China's propaganda chief Lu Ting-yi brands those who have voiced their opinion about the Chinese Communist Party during the recent rectification campaign as "bourgeois rightists." In his report on the current anti-rightist struggle and the situation in the rectification campaign to 5,600 teachers and propaganda workers, Lu boasted: "The anti-rightist struggle has proved that not only the workers, peasants and other working people side with us, but most of the intellectuals and industrialists and businessmen support socialism."

CCP wants Chinese intellectuals to be "intellectuals of the working class." The building of socialism in a country of 600 million population will not be possible without the intelligentsia including all intellectuals from the old society. An intellectual of the working class, according to Lu, is one with the thinking of the working class, that is, he serves the people whole-heartedly. Such an intellectual opposes the selfish thinking of the bourgeoisie and chooses to be with the workers and peasants, does practical work and lives among the masses, and always obeys the Communist Party.

Lu Ting-yi admitted that the rightist attacks were aimed at overthrowing the dictatorship of the proletariat in China. The "five movements" and "three transformations" carried out following the establishment of the proletarian dictatorship in 1949 had called forth the bitter hatred of the rightists. The rightists attempted first to win leadership over the intellectuals and the industrialists and businessmen, and then over the whole country. They hoped that students would create disturbances and disorder would prevail. Then they would put things in order. Lu said this was why they had violently attacked the Communist Party during the rectification campaign.

ENEMY OF SOCIETY

Severe measures against hoodlums, burglars, murderers and other criminals had to be taken in order to consolidate the dictatorship of the proletariat, the People's Daily recently declared. The paper reported that there were still evil characters and some of their activities were highly offensive. One of the reasons for this situation was the existence of a number of ingrained criminals left over from the old society who continued misbehaving whenever they could. They exercised a corruptive influence on the new society by inducing others, especially youngsters, to take part in crimes. Secondly, the paper continued, so long as the bourgeoisie, inveterate reactionaries, remnant counter-revolutionaries and various bad elements remained, they would influence others. Ideas of the bourgeoisie and other exploiting classes still had a hold in the minds of a number of persons, who might seek to satisfy their desires at the expense of the state and the public. It was under such conditions that new criminals had emerged, the paper stated. Alas! bourgeoisie are now even responsible for crimes which they do not commit!

SLAVE LABOUR

"Reform institutions" are to be set up to "educate" social misfits and lawless elements through work, according to a recent decree of the State Council. These will, in the main, be factories and farms specially established and

staffed for the purpose. Assignments will be made by the local provincial or municipal people's governments on the recommendation of the enterprise, educational institution, government department or other organisation to which the person belongs at present. The categories of people involved, as listed by the decree, include petty thieves and other petty criminals who have been exempted from punishment yet have continued their practices despite repeated efforts to educate them; counter-revolutionaries and other anti-socialist elements who have been expelled from government organisations or other institutions and have no means of livelihood; those who have been expelled from government departments or other institutions for refusing to do the work assigned to them or for persistently breaking the rules governing their work, and now have no means of livelihood; others who persistently refuse to take on work assignments and create public nuisances disturbing to the work of others, despite repeated efforts to advise and educate them.

Undoubtedly, many so-called "bourgeois rightists" weeded out during the recent rectification campaign will be among the first batch sent to these so-called "reform institutions."

SOCIALIST EDUCATION

The Central Committee of Chinese Communist Party recently issued a directive to members outlining a large-scale programme of socialist education to be carried out among the rural population. The campaign will take the form of general discussion among all people living in the countryside on the following subjects: (1) the advantages of cooperation; (2) the planned purchase and marketing of grain and other farm produce; (3) the relation between workers and peasants; (4) the suppression of counter-revolutionaries and the observance of the law, etc.

The debate, the directive said, must be full and free to enable the masses to decide for themselves which path to take; socialist or capitalist? The directive added that reactionary incitement by landlords, rich peasants, counter-revolutionaries and other bad elements must be repudiated promptly and energetically.

An editorial in the People's Daily emphasized that the large-scale programme of socialist education among the peasants will help to consolidate socialism and overcome capitalist tendencies in the countryside. The editorial said that it was a long-term task to reform landlords and rich peasants into socialist labourers, both ideologically and in action. Some of these people still were waiting for a chance to oppose cooperation, planned purchase and marketing and to provoke bad relations between peasants and workers, and create social disorders. It mentioned that before last early June, when the rightists ferociously attacked socialism, some landlords, rich peasants and counter-revolutionaries threatened the peasants, beat the government workers and even wanted to get back their land. In short, all is not so well in the countryside.

REGIONAL AUTONOMY

According to Vice-Premier Ulanfu, 23 million of China's 35 million national minority people now have regional autonomy. Ulanfu, who is also Chairman of the Nationalities Affairs Commission, pointed out that national autonomy was the fundamental policy for the nationalities

who made up 6% of China's total population but inhabited 60% of the country. Up to the present two autonomous regions, one preparatory committee, 31 autonomous chou and 54 autonomous counties had been formed. Socialist transformation among the minority nationalities was completed last year among 85% of them. Social reforms were going on among 3 million of the remainder leaving 2 million more to be transformed. The Vice-Premier listed some of the major achievements in the autonomous areas including Inner Mongolia, Sinkiang and Chinghai: the total agricultural output in 1956 was valued at 158.9% of 1952; the number of domestic animals reached 85.2 million last year, 45.9% above 1952; the number of students was 32.3% higher, with 5,500 university students, 275,000 middle school students and 3.7 million primary school pupils; doctors 220.1% more than 1952 and hospital beds 83.2% above.

Peking recently decided to form two more autonomous regions, one for the Chuang people in Kwangsi and one for the Hui people in Kansu. Regional autonomy for these two peoples has been in operation since early in 1952; it is now necessary to raise this to provincial level. All of Kwangsi Province will become an autonomous region for the 6.5 million Chuangs—China's biggest nationality next to the Hans. In Kwangsi, the Hans made up 58.4% of the population, the Chuangs 36.9% and the remaining 4.7% other nationalities. Agricultural conditions were better in the Han areas but industrial conditions were better in the the Chuang areas. The Hui Autonomous Region will be set up in Northeast Kansu covering what used to be Ningxia Province. There are 200,000 rich paddy fields with the possibility of adding hundreds of thousands of new paddy fields. The area has vast pastures for large-scale livestock raising as well as coal and possibly petroleum. Apart from the network of highways, both the Paotow-Lanchow Railway to be completed next year and the projected rail-

way from Shensi to Kansu will pass through this area. The Hui nationality of 3.5 million people are scattered all over the country with one-third of them concentrated in Kansu.

In Tibet, over 90% of the personnel in the departments under the Preparatory Committee for the Autonomous Region of Tibet will be Tibetans. The Preparatory Committee will be reorganized. The financial and economic commission will be dissolved, while the religious affairs commission retained. The 11 existing departments will be merged into four-civil administration, construction, education and finance. Many local administrative organs of the Preparatory Committee will be dissolved. Apart from a few whose service is indispensable, most of the Han people now working in Tibet will be despatched to other parts of the country.

Peking advocates that for all the nationalities of China, socialism is the only path to complete liberation and common prosperity. It is necessary for them to live together as a big unified family and to unite with one another on the basis of equality. In so doing, the Han nationality has an inescapable and also an honourable duty to take the initiative and help the minority peoples because it is more developed than the minorities. National equality is the basis of national unity; but Peking insists that regional autonomy of nationalities and the unification of the country are complementary aspects and any undue emphasis on either would be wrong. The way to solve this contradiction, Peking says, is by starting from the desire for national unity. "Without this basis, the opposition to great Han nationalism will, consciously or unconsciously, lead to division and opposition to local nationalism would, consciously or unconsciously, give rise to discrimination." To put it in a nutshell; socialism under the leadership of CCP is the only road the minorities will be allowed to take.

ECONOMIC LETTER FROM TOKYO

The Economic Planning Board's economic report for fiscal 1957 stresses the following points: (1) Japanese economy has effected a marvellous expansion propped by the active investment demands, but because of the excesses in economic expansion our balance of payments situation has deteriorated so much as to necessitate adjustment by comprehensive fiscal and monetary measures; (2) The objective of such measures is to restrain domestic demands, and thus to curb imports and to increase exports. The future of our economy depends on whether they would prove effectual to subjugate what still remains of the investment boom; (3) It is hard to predict how soon our international payments may be expected to show improvement, but if those measures could be made to operate without causing too much strain, through the support of the public, we may hope to regain in time the foothold for further economic development; (4) Sheer restoration of balance of payments equilibrium temporarily is not enough; we must in addition take long-range measures including solution of the energy problem and of various contradictions underlying our economy to keep us on a high level of economic growth permanently.

In response to an inquiry made by Government the commercial banks proposed the following matters for deliberation: (1) Revision of the Bank of Japan Law—special consideration to be made for the maintenance of the neutrality of money and banking, and for the purpose the functions of the Policy Board of the Bank of Japan to be ex-

tended and strengthened. (2) Revision of the Temporary Interest Rates Adjustment Law—amendment to be made to enable the banks to fix their loan rates on their free will, while the maximum rate is now stipulated by this law. (3) Depositing tax revenue with commercial banks—in view of the great pressure felt by banks through heavy withdrawals of Government funds, institution of a new system to be studied by the Committee under which tax revenue will be deposited with commercial banks for a given period of time. (4) Small business financings—present system of guaranteeing loans to small and medium-sized businesses by Credit Guarantee Association and that of insuring risks of loans under the small business finance insurance to be unified in one in order to facilitate such financings. (5) Promotion of savings—tax exemption on the interest of fixed deposits to be extended to 3 months and 6 months deposits, and long-term deposits to be allowed deduction from income.

Governor Yamagiwa of the Bank of Japan said that the postponing of investment is not meant just for making both ends meet so far as the money matters are concerned, but that there is the need of real squeezing such as curtailment of production or inventory reduction to attain the objective aimed at. He also emphasized points in reference to increasing our exports and the need of lowering prices at home to the level maintained overseas.

Reports of the Ministry of International Trade and Industry may be summarized as follows: (1) The tightening of money is gradually having its effects keenly felt

ECONOMIC REPORTS FROM MANILA

Alfonso Calalang, president of the Philippine Bankers Association, urged the government to secure a substantial economic security loan from the United States in order to meet future foreign exchange requirements and to cover machinery and material imports for the country's manufacturing industries. A \$300,000,000 loan, he suggested, would be the most effective way to assure adequate dollars for a smooth and accelerated program of economic development.

Such suggestions have been made frequently in the past. There are many observers in the Philippines who would oppose such a loan from the US or anywhere. The economy of the Philippines is poorly managed; there is graft and inefficiency, and politically the country is facing trouble which stems entirely from the low morality of the majority of politicians. The death of Magsaysay was a great blow to the Filipinos as no successor is in sight. Economic defeatism is wide-spread. The average Filipino does not trust the so-called political leaders who are self-seeking and all out to make money at the expense of the common people. Exchange resources have been squandered. Smuggling and illicit capital transfers are common. The value of the peso is low and will further go down. A foreign loan could only stave off devaluation but would not prevent it. The people of the Philippines will have to work harder and eliminate corruption. The root causes of the Philippine malady must be tackled—a foreign loan cannot do that. Already too much charity and loans have been dispensed in the Philippines and people might get used to receiving gifts instead of putting their house in order. Here is a land with great potential wealth but suffering from poverty. Other than economic reasons are responsible for this unfavorable state of affairs in the Islands.

Gov. Miguel Cuaderno of the Central Bank declared that he is doing everything he can to prevent further deterioration in the country's foreign exchange reserves in view of the fact that the country in the near future will be faced with especially heavy demands for foreign exchange. He cited the fact that the Binga power project will need

mainly in big cities, and the unprecedentedly prosperous condition of business is now on the turning point. As a result there is a greater demand for funds, and it is feared that many industries will find themselves confronted with difficulties in August-September, when heavy inflow of funds to the Government is expected to continue; (2) The credit of trading firms is being looked askance at; (3) Bankruptcy of small and medium sized textile and electric machine enterprises is not infrequently reported; (4) Plant and equipment investments are being suspended or deferred.

The Finance Ministry made public the surplus of fiscal 1956 budget (General Account) as finally determined to amount to Y100,176 million. This is twice or three times as much, when compared with Y40,800 million in 1953, Y38,000 million in 1954, and Y32,300 million in 1955. It may largely be ascribed to the natural increase in tax revenue of nearly Y70,000 million by reason of prosperous business in last fiscal year. This surplus will be made use of as a source of revenue for 1957 supplementary budget and 1958 budget.

Conditions of the 1957 rice crop as of July 15 may be said to be about normal and an output of 68,715,000 koku (1 koku is approximately 5 bushels) is estimated according to the Ministry of Agriculture and Forestry. It is 1,042,000 koku less than the actual yield in the previous year.

\$20,000,000, the National Shipyards and Steel Corporation around \$20,000,000 for a steel smelter and other projects, and the Public Works Department about \$14,000,000 for such projects as dredging Manila Harbor. Private industry will require large amounts of dollars for such projects as the ramie processing plant and the flour mill to be established here in the near future. The \$65,000,000 credit line he secured some time ago from the Export-Import Bank of the United States is not much use to him in this situation, since it provides only for purchases from the U.S., while Philippine officials and businessmen have been placing orders for equipment in Europe and Japan because of the lower prices offered by suppliers there. The Governor hopes to meet the situation by a loan from the World Bank and possibly by short-term credits from private American and Japanese banks.

The application of the Standard Vacuum Oil Co. to build a \$35,000,000 petroleum refinery in Bataan was approved by Pres. Garcia and his Cabinet. Their decision was motivated by the prospect that the refinery would result in dollar savings of around \$4,000,000 a year for the country and would employ a permanent staff of 620 people, including 600 Filipinos. The concession for Stanvac was approved under the Petroleum Act of 1949, subject to the following terms: 1. Remittances of dividends shall be on the same basis as those granted the existing Caltex refinery and subject to the existing Central Bank Regulations therefor. Said remittances shall not be less than those granted others in the refinery business. 2. The withholding tax on dividends shall be imposed in accordance with the regulations and decisions of the Department of Finance. 3. The National Economic Council cannot assume responsibility for securing the exemption of construction materials and supplies for the Stanvac refinery from the special import tax. 4. The company shall bring in and use in its operation 50% of its crude oil requirements in crude oil with asphaltic base, if this is not detrimental to the interests of the company.

Stockholders of Acoje Mining Co. have ratified the sale of the company's petroleum exploration concessions, equipment and other assets to the newly organized Acoje Oil and Drilling Co. Stockholders of Acoje Mining will be allowed to subscribe to the capital of the new oil company on the basis of ten shares for each share of Acoje Mining now held. Acoje Oil & Drilling Co. is capitalized at P10,000,000, of which P2,500,000 has been paid up and P5,000,000 remains to be issued. It has purchased a modern rotary drilling rig at P1,000,000. The rig has been shipped to northern Cebu, where the company is scheduled to start drilling operations shortly. Exploratory work to determine the best location for the rig will be carried out by a portable coring unit, capable of probing to 3,000 or 4,000 feet, which the company is ready to send into the field. Acoje Oil is headed by Jesus S. Cabarrus, president of Acoje Mining and other mining and industrial enterprises.

Two new banks will open in Manila: the Manufacturers Bank and Trust Co. and the Philippine Bank Corporation. Manufacturers Bank, headed by Antonio de las Alas as president and chairman of the board, is capitalized at P5,000,000. It will engage in general banking business. Senator Jose P. Laurel is chairman of the Philippine Banking Corporation, which was formerly the Square Deal Bank of Tanauan, Batangas. It is capitalized at P5,000,000. The Tanauan office will continue to operate as a branch. Both

banks are located in the heart of the business district of the city on Dasmarinas Street.

Goodrich International Rubber Co. will shortly open up a 1,000-hectares (2,500 acres) of virgin land in Basilan City, Zamboanga del Sur, for conversion into a rubber plantation. This was disclosed by Lewis Hayden, vice-president and general manager of the firm. B. F. Goodrich Co., which owns 43% of its Philippine subsidiary, approved the proposed investment of P3,000,000 for the development of the plantation as a future source of latex for the company's tire and rubber factory in Marikina, Rizal. Clearing of the land will be started soon for the planting of high yielding rubber trees which were flown here from the United States and now being carefully grown in a nursery. The plantation is the first to be opened by Goodrich in the Philippines.

International Harvester Company of Philippines will put up a new multimillion peso plant to manufacture motor trucks and tractors. IHC purchased 4.5 hectares (112.5 acres) of land on Shaw Blvd. in Mandaluyong, Rizal—a suburb of Manila—for the proposed factory. The plant will be started immediately to manufacture McCormick International Farmall D-430 tractors. This tractor was introduced a year ago in the Philippines from the International Harvester Neuss plant in Germany. Since then it has become popular with Filipino farmers as a dependable, powerful and efficient piece of farm equipment. Two Filipino engineers are now in Chicago at IHC headquarters for training in operation of the new plant.

Vicente A. Araneta, president of G. A. Machineries, Inc., announced that the company has begun a profit sharing plan for its 192 employees by distributing to them 1,277 shares of the company's stock valued at P127,700. The plan, which Araneta believes is the first of its kind in the Philippines, was proffered voluntarily to the workers by the company directors.

The Philippine branch of the General Milk Co., foreign operations subdivision of the Carnation Co., will begin producing canned milk this month at its new P6,000,000 plant now nearing completion in Mandaluyong, Rizal. The product will carry the "Liberty" label and will be distributed exclusively in the Philippines by Connell Bros. The new plant is one of the latest of its kind in the world, consisting of a can factory, condensery, pilot plant and laboratory. The can factory has an output capacity of 22,000 cans per hour. The company describes "Liberty" milk as a nutritious blend of non-fat cows milk and refined vegetable fats, extra rich in milk solids and fortified with vitamins A and D.

The National Marketing Corporation will begin importing flour for distribution exclusively to Filipino bakers. The Filipino bakers have appealed to Pres. Garcia for aid in securing flour at low cost, claiming that alien traders have major control of flour import and distribution and have been jacking up prices.

The real estate market in Manila and suburbs showed marked strength during the first half of 1957. Sales passed P75,000,000, an increase of 32% over sales of P57,000,000 in the same period of last year. The 1957 figure was the first for any half-year period in ten years to pass the P75,000,000 mark. The upward trend in the real estate market was first observed in 1955 and appears to be gaining momentum. While the volume of sales for Manila remained practically stationary, sales in Quezon City and the suburban towns registered substantial improvement. Demand for home sites and industrial real estate was also strong in Novaliches, Marikina, Polo, Meycauayan, Las Pinas, Alabang and Muntinlupa. As homeseekers and more industrial operators seek sites on the outskirts of Manila, land prices

have been rising gradually—a trend that has been an important feature of the economy since 1950.

The prediction that the Philippines will become the principal copper producing country of the Far East is contained in a report by the former chief of the mining division of the U.S. foreign operations mission in Manila. The report also predicted that Philippine copper production will more than double in the next five years. A few years ago the Philippines produced about 10 to 12 thousand tons of copper contained in 40 to 50 thousand tons of concentrates. Present production has now reached 30,000 tons of copper contained in 125 thousand to 150 thousand tons of concentrates. During the next five years, Philippine copper production will ascend to between 60 and 75 thousand tons of copper annually contained in 300 thousand tons of concentrates.

Charles A. Mitke, well-known local mining engineer, stated that investors in Philippine copper mining shares will reap a good profit if they hold their stock for the long pull. He pointed out that copper mining will be a permanent industry in the country, since some mines have known reserves that will last from twenty to thirty years. It is unfortunate, he said, that many buyers had apparently invested in Philippine copper shares for purely speculative purposes and then, when stock prices began to drop, they quickly threw them overboard, thus taking unnecessarily large losses. A number of Philippine copper shares have declined by 50% or more from the highs of 1956, obviously as the result of the falling price of copper on the world market.

Money supply in the Philippines has been expanding steadily, according to the Central Bank, and is adding to inflationary pressures in the country. At the end of April the money supply reached a new high at P1,589,600,000. This compares with P1,499,200,000 at the end of 1956 and P1,336,200,000 at the end of 1955. At the end of 1949 the money supply was only slightly in excess of one billion pesos. Currency in circulation has shown a parallel trend, also reaching a new record of P744,800,000 at the end of April against P718,900,000 at the end of 1956, P670,400,000 at the end of 1955 and P569,900,000 at the end of 1949. Domestic credits have likewise shown a steady and impressive expansion, reaching an all-time record of P2,216,200,000 at the end of April. This compares with P2,069,800,000 in 1956, P1,753,100,000 in 1955 and P813,900,000 in 1949. Other banks (outside of the Central Bank) accounted for P1,644,700,000 of the total domestic credits as of April, compared to P1,595,000,000 as of 1956 and P1,335,200,000 as of 1955. At the end of 1949 domestic credits of other banks accounted for P665,800,000 of the total. The international reserve of the Central Bank and the banking system are getting less and less. As of June 24, it was \$193,500,000 against \$224,700,000 at the end of 1956 and \$209,200,000 at the end of 1955. In 1949 the reserve stood at \$260,100,000. Unless foreign exchange holdings improve, the Philippines will have to reduce its imports of consumer goods, including those in short supply and not produced here in quantity. This will serve to quicken the inflationary spiral, since there will not be sufficient supply of goods to counterbalance the increased supply of money.

A radically revised commodity classification schedule, calculated to cut down substantially on the country's imports, was approved by the National Economic Council. The revised schedule downgrades as to essentiality around 114 items out of approximately 1,900 on the Central Bank category list, reducing these items from the "essential" category to that of semi-essential, non-essential, decontrolled or unclassified. Prominent among the items so-downgraded—for which foreign exchange will hereafter be more difficult to obtain—are air-conditioning and refrigeration machines and

SINGAPORE ECONOMIC PROSPECTS

Singapore's National Income is over \$1,800,000,000 a year, which is equivalent to \$1,200 a head, "several times greater than that of most Asian countries". This is the conclusion of the Economic Survey—Singapore for 1957 which has been compiled by Dr. F. C. Benham, the Economic Adviser to the Chief Minister, and Mr. Paul Wilson his assistant. It is an encouraging report of "continuous increase in levels of consumption over the last two to three years". Retained imports of food increased from about \$150,000,000 in 1954 to about \$200,000,000 in 1956, while in the same period, retained imports of textiles increased from about \$72,000,000 to \$104,000,000; and prices of food fell by over 10% and of textiles and clothing by about 5%. There had also been an increase in food production. The number of pigs killed for eating rose from 398,000 to 539,000; while the poultry population increased threefold to 15 million. There had too been a rapid expansion in expenditure on social services. From 1954 to 1956 there had been an increase in expenditure on education from \$24,000,000 to \$39,000,000, and on health services from \$20,000,000 to \$25,000,000. There had been an increase in the number of factories with 210 registered during 1955, 1956 and the first quarter of 1957. They are small and serving the consumer, but a further indication of economic expansion is the increase by 15% in goods vehicles apart from the overall increase in motor vehicles from 50,000 to 68,000, and an increase of electricity consumption by 46%. The survey estimates that the standard of living has been increasing at the rate of 10% a year, and allowing for the increase in population this still implies a rate of over 5% a year. Average earnings have risen for both female and juvenile workers, and for male workers, in the first category by 12%, and there has been a reduction of hours and provision of paid holidays. Meanwhile the cost of living has fallen slightly. The index of retail prices which was 333 for the lower income group in December 1953 was 322 in December 1956. Estimates show that the levels of consumption have continued to rise in the first quarter of 1957.

There has not been the same increase in capital formation which stood at \$180,000,000 for 1956. But contrary to certain newspaper reports in London, there has been no flight of capital from Singapore. There has been a movement to take advantage of the higher rates of interest in the U.K. until the parallel bank rates were raised in Singapore, but there was nevertheless a net inflow of \$28,000,000 of overseas capital. This figure covers transfers of ownership between residents and non-residents.

parts; food and beverage processing machinery; raw or green coffee; cotton, flax, silk, rayon; various articles of apparel and clothing; fruit juices in cans; and storage battery parts. The principal objective of the revision is to save dollars for the country.

Under this head the main items were net sales of land by non-residents of \$4.3 million and net purchases of shares in local companies by non-residents of \$3.5 million. Over \$29,000,000 was spent from "foreign" sources on building and construction, plant and machinery, and other capital assets. Much of this was spent by British and other "foreign" companies, largely from their undistributed profits.

The survey estimates voluntary personal saving at \$20,000,000 while pointing out that in 1956 \$17,000,000 were remitted to China and \$20,000,000 to India and Ceylon. The Provident Fund is accumulating capital at the rate of \$25,000,000 a year, while the undistributed profits of companies amounted to \$131 million on which \$39,000,000 of tax was paid. The amount spent by the Government, City and public Utility authorities in capital investment in 1956 was \$107 million and it is expected to be only slightly less this year. Towards this cost the budget surpluses from 1948 to 1953 have contributed \$198,000,000 of the \$278,000,000 which has been spent over the same period. But since then, the report adds, "the situation has changed. The rapid expansion of the social services, slum clearance, resettlement of squatters, increases in personal emoluments, and other factors have led to a marked rise in both its recurrent and its capital expenditure. Despite some increases in taxation, its current revenue does not provide a surplus sufficient for the capital requirements of the Government itself."

Of Singapore's international trade the Survey reports growth. From 1954 to 1956, imports grew in value from \$3,023,000,000 to \$3,929,000,000 and exports from \$2,683,000,000 to \$3,430,000,000. Taking 1952 as the base year, the figure of imports and exports for 1956 are 120 and 116. The figure for the National Income has already been quoted but the survey adds that while there has been an increase in note circulation with no inflationary move of prices, and yet the demand deposits in banks have fallen, there has been a change in the distribution income in favour of wage earners.

The conclusion reached is summarised as follows: "The last three years have been years of prosperity. There has been a marked increase in standards of living, and fairly full employment. Earnings have risen since 1954 by 12 per cent and hours of work have been considerably reduced. The share of workers in the national income has risen; nevertheless profits and share values have increased. It seems likely that the volume of international trade, and the earnings of Singapore as a great port and distribution centre, will continue to expand, although this depends to some extent on economic conditions and policies in neighbouring countries, especially the Federation of Malaya and Indonesia."

TRAINING MALAYA'S LEADERS

Asia's first Outward Bound school, situated along the north-west coast of Malaya, is celebrating its second anniversary. They have been two fruitful years during which time more than 1,000 youths of all nationalities and from many countries in South East Asia have undertaken the

one month course at the school. The aim of Outward Bound is to equip boys to cope with the hazards of life by developing their courage, confidence, initiative and perseverance. Each course provides a rigorous training programme consisting of athletics, sea and land expeditions,

life-saving, community service, lectures, debates and discussions. Until 1955 the name Outward Bound meant nothing to the people of Malaya. The idea for an Outward Bound school here was suggested by the former High Commissioner, General (now Field Marshal) Sir Gerald-Templer, who saw it as an ideal place in which intelligent young men who were keen to get on would have an opportunity of developing talents which otherwise might lie dormant.

The original Outward Bound school was founded in 1941 in England by Kurt Hahn, headmaster of Gordonstoun (the Duke of Edinburgh's old school), and Lawrence Holt of the Blue Funnel shipping line. There are now three Outward Bound schools in Britain—two sea schools at Aberdovey and at Burghead and a mountain school at Eskdale. In addition there are two Outward Bound schools in Africa and Australia is planning to start its first school very shortly. The Outward Bound school at Lumut in Malaya is based on the same principles as the British schools. The training is tough but it is so balanced that it does not demand more from any boy than he is capable of giving. It does not involve any form of military training and the courses are open to young men of any race or religion. Qualifications for entrance are that the candidate should be physically fit and of average intelligence but there are no minimum educational standards required. To join the school for its one month course, a young man may be sponsored by his employers, or by a youth organisation, or he may pay the school fee of \$250 (Malayan) privately. Several big commercial firms and banks in Malaya such as Shell Company, Lever Brothers, Mansfields, Barlow's and the Chartered Bank, sponsor young men employed by them. Government departments, too, and semi-Government agencies like the Central Electricity Board and the Rural and Industrial Development Authority, also sponsor candidates who are likely to benefit from the course.

During the 25-day course the students live in dormitories. They elect their own leaders. Discipline is strict but is designed so as not to restrict or frustrate the individual. It aims at creating self-discipline and helps each

student to master his own particular weaknesses. Hence the Outward Bound motto: "To serve, to strive, and not to yield". The school is supported entirely by voluntary subscriptions and is managed by a Trust appointed by the Federal Government. The Chief Minister, Tengku Abdul Rahman, has taken a keen interest in Outward Bound and it is primarily through him and his Ministers that the school has flourished so remarkably during its first two years. Present chairman of the Outward Bound school management committee is a Kuala Lumpur businessman, Mr. I. P. Bruce. At the beginning of every month, between 20 and 30 young men start arriving at Lumut. They come from all over the Federation of Malaya, from Singapore and sometimes from Java, Sumatra, Sarawak and British North Borneo. The majority have only a bare idea of what Outward Bound means and stands for but 25 days later, when the course ends, they are devotees for ever. One of the school's greatest assets is a sailing ketch, present by a mining director to the school. The boys are given instruction in seamanship and navigation often spending three or four days at sea off the Malayan coast with qualified instructors. They also maintain the vessel. Another highlight of the course is the instruction the boys receive in compass and chart reading for getting from A to B overland. On every course boys move off from Lumut in parties of three to trek to a certain destination using only a compass and a chart. Every evening after a hard day's work either on the sea or on the land, the boys meet together in discussion groups to exchange notes and debate what they have been taught. This is tremendously advantageous for the normally shy youth. On an occasion like this he is at least putting forward his views to other youths of the same age and on questions which they have virtually all had the same length of training in. So keen are many of the youths who have undertaken the course to keep alive the spirit of the school that in Kuala Lumpur 60 former students of Outward Bound have formed their own old boys' association. "We feel it would be a great pity if these sound friendships were allowed to drift apart," said one of the founders of the old boys' association.

HONGKONG GOVERNMENT REPORTS

INDUSTRY & EMPLOYMENT

Development of Local Industry—In spite of difficulties arising from fluctuation in the prices of raw materials and exchange rates, and keen competition from Japan, India and China, local industry forged ahead after an initial slack period in 1955/56 and most factories were in full production from June onwards. The textile industry made the most marked recovery due to the great improvement in cotton weaving and knitting trades. Gloves and made up garments also had a good year, but some factories lost money due to keen competition. The plasticware industry continued to grow, and a large number of new, mostly small, factories came into operation during 1955/56. Many of these produced new and varied articles including pliant polythene containers and plastic string shopping bags. New process of dielectric welding to PVC sheeting was adopted enabling manufacturers to produce raincoats, handbags and imitation leather articles. The application of plastic coating to rattanware was another new process which proved very successful. Torch batteries, torch cases, torch bulbs, rattan furniture, aluminium ware, vacuum flasks, hurricane lamps, rubber footwear and buttons also had a good

year, but needles, nails, screws and enamelware manufacturers did not do so well. Two enamelware factories closed down during the year.

The main feature of the year from the labour point of view was that local industry continued to expand at a high and sustained rate. As a result employment in registered and recorded factories and other industrial undertakings rose during the year from 118,568 to 138,836. During the first quarter of 1956 the relaxation of immigration restrictions on both sides of the land frontier with China enabled large numbers of local workers to pay short visits to their families in China for the first time for several years. Nearly all these workers returned to Hongkong in due course but initially at any rate this movement led to a shortage of labour, particularly in the poorer paid trades where wages had to be increased in order to maintain production.

Industrial Employment—The textile industry led the field with the largest overall increase in numbers during 1955/56 showing a net gain of 5,520, of whom 2,710 were women. Within this industry, the increases were mainly in knitting 2,200 and spinning 1,540. There were notable increases also in fac-

tories manufacturing footwear and wearing apparel, which showed an increase of 3,000; metal products 3,620; shipbuilding and repairing 2,020, and rubber footwear 2,000. Electrical apparatus industry alone showed a decrease of 1,050. The following table shows employment figures and the number of registered and recorded factories in seven major industries:

	1954		1955		1956	
	No. of factories	No. of workers	No. of factories	No. of workers	No. of factories	No. of workers
Spinning	13	10,046	17	12,402	19	13,939
Weaving	158	10,278	148	8,011	147	8,944
Knitting	275	10,166	295	10,512	333	12,715
Finishing (Textiles) .	45	1,089	46	1,187	54	1,396
Shipbuilding and Repairing	20	6,927	21	7,217	22	9,290
Rubber	50	6,701	52	7,511	63	8,706
Metalwares, including handtorch industry	309	17,270	369	21,423	464	24,675

In addition to workers in registered and recorded factories, there were approximately 100,000 persons employed in unregistrable industrial establishments or as outworkers, 25,000 in public utility companies and 50,000 in fishing. In the following table registered and recorded factories are classified according to the number of workers employed on 31st March 1956:—

Number of Factories and Industrial Undertakings	Number of Workers employed in each Factory or Industrial Undertakings	Total
1,803	1—19	18,359
832	20—50	25,102
237	51—100	17,391
146	101—200	20,341
41	201—300	9,578
22	301—400	7,323
17	401—500	7,667
19	501—1,000	13,038
10	1,001—2,000	13,264
2	Over 2,000	6,773
16	Ceased work	—
3,145		138,836

Wages and Conditions of Employment—In spite of the fact that local industry was expanding rapidly, manufacturers kept labour costs down because of keen international competition. Only towards the end of the year was there a slight increase in wages. The building boom caused a shortage of construction workers which forced the building industry to increase its wages. The lowly paid metal industry had to increase wages for unskilled workers in order to meet a shortage consequent upon the relaxation of frontier restrictions between Hongkong and China. Wage rates remained stable in the larger and better established industrial concerns such as textile mills and public utility companies. In other concerns average daily rates were: skilled \$6 to \$8.50; semi-skilled \$5 to \$6.50; and unskilled \$3 to \$5. Highly skilled craftsmen in engineering, printing and furniture-making trades earned up to \$14 for an 8-hour day.

Nine spinning mills, 4 of which also operate weaving sheds, work on an 8-hour shift system with women on the day shifts and men on both day and night shifts. The majority of Chinese concerns work longer hours, particularly when orders are plentiful. Manual workers in Chinese-managed factories on a daily paid basis, and a certain number on piece-rates, get overtime pay at rates varying between 125% and 200% of their ordinary wage; no overtime pay for salaried workers in these factories.

Employment of Women—Fairly large numbers of women are employed as earth carriers in construction work, but apart from this, women play an important part in light industries

particularly in those which require deft fingers and manual dexterity. The textile industry employs the greatest number of women—over two-fifths of the total number recorded. Employment returns show an average of 48,000 women employed in registered and recorded industrial undertakings, nearly 6,000 more than in the preceding year; the percentage of women workers to the estimated total labour force—37%—remains unchanged. The above figure does not include outworkers or those employed in small unregistrable concerns or in construction work or as stone breakers in quarries. Numbers have increased in all branches of the cotton textile industry, although in the weaving section there are fewer women than were employed two years ago. This may be accounted for by the increased use of automatic and semi-automatic looms. Numbers of women employed in the manufacture of rubber shoes, boots and other rubber wares increased to over 5,600 as at March, 1956. A decline in number of women employed in the manufacture of metal torch cases was offset by an increase in number in miscellaneous metalware and tin can manufacture.

Most women employed in industry are on daily or piece rates, and only comparatively few receive fixed monthly salaries. Where women and men are engaged on the same work, they usually receive the same piece rates and women's earnings approximate to those of men. The few women who hold responsible positions as instructors, supervisors or forewomen usually earn a wage which is as good as, or only little less than, that of men in similar positions. Women are prohibited from working between 8 p.m. and 7 a.m.; however during the year 24 applications to employ women on overtime from 8 p.m. to 9 p.m. were granted.

Employment of Young Persons—Employment of children under the age of 14 years in any industrial undertaking is prohibited by law. Young persons—i.e. those who have attained 14 years of age—work in a large variety of industries. Girls are employed fairly extensively in metalware factories and in packing work. Boys work as apprentices in engineering workshops, shipyards, foundries, printing and engraving establishments, glassware factories, and in many other industries. At the end of March, 1956, 1,426 young persons between the ages of 14 years and 18 years were registered with the Labour Department as working in registered and recorded industrial undertakings. Of the total number 38 boys and 206 girls are under 16 years, 366 boys and 816 girls over 16 years.

TECHNICAL TRAINING

The Hongkong Technical College is the principal government institution of technical training. Full-time day courses are offered in building, commerce, mechanical engineering, navigation and tele-communications. In October 1955, a part-time day course for trainee housing managers was introduced. There are also evening classes for apprentices working in government and industrial organizations.

The Junior Technical School provides a pre-apprenticeship course. Recruits are chosen either from boys who have taken the Joint Primary VI examination or by competitive examination among the sons of artisans sponsored by local firms and trade unions. Technical training for girls is provided by the Ho Tung Technical School for Girls, a secondary Anglo-Chinese technical school in which the five-year course aims at the Hongkong School Leaving Certificate. English is the medium of instruction. In the first two years the girls are given a general course in handicrafts, needlework, mathematics, domestic science and a good grounding in the English and Chinese languages. At the end of these two years, during which the ability and aptitude of the girls can be assessed, they enter one of three vocational courses.

There are two large non-governmental institutions providing technical training for boys—the Aberdeen Trade School and the Tang King Po School. The management of the Aberdeen Trade School is entrusted to the Salesian Fathers subject to the general direction of an Executive Committee under the chairmanship of the Secretary for Chinese Affairs. The school is a residential institution with accommodation for 350 boys, of whom approximately 150 receive their education free or at reduced fees. They are admitted generally at the age of 11, 12 or 13 years and after one or two years' primary schooling pass on to a five-year apprenticeship course for mechanics, electro-mechanics or carpenters. At the Tang King Po School, which is also under the management of the Salesian Fathers, tailoring and printing (type-setting, printing and book-binding) are taught. Classes in engineering, radio servicing and commercial subjects are run by a number of small private schools, while the Far East Flying Training School offers courses for pilots, radio operators and radio engineers.

Craft apprenticeship within government service is provided by the Public Works Department in its electrical and mechanical workshops and the Waterworks Section, by the Kowloon Canton Railway, in the Stores Department's workshops and in the Printing Department. A new system of recruitment and training was introduced in September 1955, in the Public Works Department workshops and the Kowloon Canton Railway. Selection was by means of examination in English and mathematics (examinees being of Junior Middle II standard or higher), by aptitude test and finally, by interview. Successful candidates were indentured for 5 years in most cases, but for 4 years where the boy had completed a pre-apprenticeship course at the Junior Technical School. Apprentices are released from the workshop one whole day per week to attend classes at the Technical College and, in turn, they are required to attend classes on two evenings per week. Craft apprentices in all government workshops are encouraged to attend the Technical College evening classes for supplementary training, and tuition fees are refunded by Government to those who are successful in their examinations.

The Taikoo Dockyard has three types of apprentices. "A" apprentices have had a general education approximating School Certificate standard and receive a progressive training in all branches of shipbuilding, or electrical engineering or mechanical engineering. "B" apprentices are of Primary VI standard and are indentured for five years to a specific trade. Any "B" apprentice who shows outstanding ability at his work and in his evening classes may be re-graded "A" at the discretion of the Dockyard Apprentices Board which supervises the training of all apprentices. Piece-work apprentices are under the control of the various pieceworkers in the Dockyard and are classified as "B" apprentices; they also normally serve for five years. All apprentices are encouraged to attend evening classes at the Technical College for related technical instruction, for which fees are paid by the Company. In 1955 the Company also paid fees of candidates for various City & Guilds of London Examinations. In addition, the Taikoo Annual British Scholarship for two years' training in the United Kingdom is open to any senior Chinese apprentice of three or four years' service who has attained outstanding results in practical and theoretical training. The Hongkong & Whampoa Dock Co. Ltd. has an "A" apprenticeship for boys of any nationality who have reached a certain standard of education and are able to read and write English and a "B" apprenticeship for those unable to speak English.

At H.M. Dockyard selected boys are given a five-year training for such dockyard trades as sailmakers, carpenters, coppersmiths, fitters, caulkers, drillers, etc. Fees are paid for the first year for boys who attend Technical College classes and thereafter, subject to their passing the annual

examination and gaining promotion. Apprentices are employed in smaller numbers at the Hongkong Tramways Ltd. and in the workshops of the two electric power companies. At the Hongkong Tramways the period of apprenticeship is five years followed by one or, in some cases, two years as improver. Apprentices are required to attend English classes three times a week during working hours at the Company's Welfare Centre and they are expected and encouraged to attend Technical College evening classes, their fees being paid by the Company. At the Hongkong Electric Company apprentices are accepted at the age of 16, serve a five-year apprenticeship and a further five years as an improver. Apprentices and improvers are encouraged to augment their practical training by theoretical instruction in the Technical College evening classes and, subject to the attainment of certain standards, tuition fees are refunded by the Company. In addition monetary grants are awarded to students whose school work and examination results are considered to merit such awards. At the China Light & Power Company, apprenticeship is for five years. All apprentices must attend evening classes for which fees are paid by the Company. During the year this Company also sent its Chief Testing and Installation Engineer and two Chinese technicians to the United Kingdom for a period of six months for specialized electrical training, to gain first hand knowledge of the latest equipment and methods.

The South Sea Textile Manufacturing Co. Ltd. has a two-year training programme initiated in 1954 for two grades of technical personnel, one for students of School Certificate standard to be trained as junior maintenance and shift engineers, the second of a lower standard to serve as apprentices and eventually become machine tenders and fixers. The mill provides free board and lodging with clothing, text books, medical attention and pocket money. Practical training includes machine-shop work, erection and dismantling of machinery and an understanding of its construction and operation. Classroom lectures include instruction in mechanical and electrical engineering, machine drawing, mathematics and textile technology, English and Chinese. The Nanyang Cotton Mill Ltd. has a training scheme for students of School Certificate standards. The course is for two years of practical work and lectures in technical subjects, followed by one year of regular duty in the mill. Students receive a wage and are provided with food and accommodation and workclothes. This mill has also organized a course for potential supervisors. Men and women are chosen from mill operatives for their reliability, honesty and responsible attitude towards their work and their fellow workers; they receive instruction two hours weekly in mill regulations, how to give instructions and general "job relations" in the mill. This course lasts about six months.

FORESTRY & TIMBER TRADE

Forestry—Approximately 80,000 acres of hillside land are suitable for afforestation which in fact is the main form of land utilization in the Colony. During 1955/56, some 600 acres were planted and the main feature in this period was the completion of the new nursery at Fanling. This covers an area of 23 acres and has now started towards its goal of 5 million seedlings per year so as to step up the rate of afforestation.

Timber Trade—The timber trade is entirely in the hands of private firms without Government restrictions. A considerable re-export trade of graded timber has developed and orders have been placed from Australia, U.S.A. and United Kingdom and other countries. Exports are actually re-exports of imported timber because locally grown timber is not available for foreign markets. At present such exports are restricted by the capacity of small local saw mills and the shortage of seasoning space. Some exporters are planning to erect their own mills and to provide adequate storage space for seasoning. Arrangements were made for candidates from 4 local firms to go to Malaya and Singapore for training as

Timber Graders. Hongkong is well placed to obtain logs from Malaya and the Philippines. Labour is cheap and there is the added advantage of a steady local demand for poorer quality timbers which are not up to export standards. Many foreign markets require certificates assuring that consignments are free of live borers.

IMPORTS & EXPORTS OF TIMBER IN 1955

CATEGORY	GROSS IMPORTS		GROSS EXPORTS		NET IMPORTS	
	Hundred Cu. ft.	HK\$	Hundred Cu. ft.	HK\$	Hundred Cu. ft.	HK\$
ROUND:						
Teak	1,906	2,533,943	75	82,756	1,831	2,451,187
Primary Hardwood	3,520	2,133,856	661	549,001	2,859	1,584,855
Secondary Hardwood	10,671	4,436,202	490	566,036	10,181	3,870,166
Light Hardwood	49,425	14,451,973	1,789	611,721	47,636	13,840,257
Soft Wood (Conifer)	71	58,709	54	29,881	17	28,828
Timber for match making	185	86,359	—	—	185	86,359
Polis. Filings & Posts	990	450,382	—	—	990	450,382
SAWN:						
Teak	5,211	7,492,898	109	186,344	5,102	7,306,554
Primary Hardwood	288	517,602	21	18,356	267	499,246
Secondary Hardwood	279	337,123	805	780,667	—	—
Light Hardwood	8,842	3,490,557	2,021	1,797,215	6,821	1,693,342
Soft Wood	10,234	5,461,593	121	78,933	10,113	5,382,660
Timber for match making	—	—	—	—	—	—
Total timber	91,822	41,451,202	6,146	4,700,910	86,002	37,193,838

Percentages (by value) of gross imports from and exports to different destinations during 1955 were: Imports—North Borneo (British) 75%, Thailand 8%, China 6%, Canada 3%, Philippines 3%, U.S.A. 2%, Malaya 2%, other sources 1%; Exports—Macao 47%, U.S.A. 22%, Australia 15%, China 3%, Japan 3%, United Kingdom 3%, Africa S. 2%, U.S. Oceania 2%, Formosa 1%, New Zealand 1%, other destinations 1%.

HONGKONG AIR TRAFFIC IN JUNE

Regions	Departure		Arrival	
	Passenger	Freight (Kilos)	Passenger	Freight (Kilos)
Australia	159	2,598	138	4,554
Borneo	72	2,803	121	14
Burma	154	7,623	114	581
Cambodia	46	—	—	—
Canada	170	889	34	860
Europe	73	10,986	105	3,785
Formosa	641	59,216	731	4,256
Guam	10	4,145	31	195
Honolulu	129	226	54	44
India	275	6,487	220	2,036
Indonesia	—	—	—	—
Japan	1,327	7,850	1,958	17,063
Laos	134	28,493	70	3,303
Macau	3	4,355	3	—
Malaya	—	—	—	—
Middle East	97	789	73	59
New Zealand	37	—	—	—
Okinawa	91	6,970	86	813
Pakistan	36	1,926	61	180
Philippines	2,233	15,598	1,975	3,119
Singapore	732	14,853	493	3,340
South America	29	1,350	14	32
South Korea	208	3,500	362	325
Thailand	1,367	18,935	1,246	12,648
United Kingdom	355	10,507	164	12,040
United States	219	4,146	71	5,758
Vietnam	366	6,734	336	1,686
Wake Island	—	178	—	—
Ceylon	1	817	—	—
Total	9,464	221,974	39,177	76,691
Direct Transit	857	17,006	—	—
Total Aircraft Departures	= 347.			
Total Aircraft Arrivals	= 342.			

HONGKONG SHIPPING IN JUNE

Vessels	Entered		Cleared		Cargo	
	No.	Ton	No.	Ton	Arrived	Departed
British	223	406,771	221	399,768	194,686	38,684
American	19	101,749	19	101,749	8,899	5,886
Costa Rican	1	372	1	372	—	—
Cambodian	2	1,114	1	557	1,573	1,000
Chinese	22	7,818	23	8,649	7,857	4,945
Danish	18	64,715	16	61,473	12,261	10,642
Dutch	17	80,549	16	79,188	11,013	9,998
Finnish	1	4,105	1	4,105	—	—
French	6	18,370	7	25,499	1,032	1,957
German	6	26,072	6	26,072	6,670	1,653
Italian	2	11,496	2	11,496	4,304	2,113
Japanese	35	76,710	36	77,632	11,668	16,381
Korean	9	14,986	9	14,986	9,723	3,950
Liberian	3	6,368	3	6,368	710	1,287
Norwegian	33	94,536	31	95,377	36,134	14,936
Panamanian	13	18,694	14	19,522	31,363	10,220
Philippine	5	11,510	4	9,319	1,360	700
Swedish	9	24,505	9	24,505	10,934	1,338
Thai	1	1,672	1	1,672	243	335
Yugoslavian	4	11,303	4	11,303	2,960	3,450
Total	429	983,415	424	972,612	353,390	127,175

FINANCE & COMMERCE

HK EXCHANGE MARKETS

Aug.	U.S.\$			
	T.T. High	T.T. Low	Notes High	Notes Low
26	\$606	602½	603	600½
27	603	602½	602½	600½
28	602	601	601	599½
29	601½	600½	601	598½
30				
31	600½	599½	599½	597½

D.D. rates: High 605 Low 598½.

Highest and lowest in August: T.T. 613 and 593; Notes 613½ and 592½.

Trading totals: T.T. US\$2,960,000; Notes cash US\$330,000, forward US\$2,540,000; D.D. US\$480,000. On Monday, the rumour about possible depreciation of Pound Sterling caused rates to jump up blindly. This hysterical fluctuation is unhealthy for the Pound Sterling. In the T.T. sector, general importers and operators provided steady demand and absorbed offers from Japan, Korea, and Philippines. In the Notes market, speculators provided very keen demand; many preferred to hold on their overbought positions rather than to liquidate in spite of heavy change over interest which favoured sellers and aggregated HK\$18.34 per US\$1,000. Positions taken by speculators averaged US\$3 million per day. The D.D. market was active with increased volume of remittance from overseas Chinese who are now investing in local real estate business; the approaching mid-Autumn Festival is also attracting more remittance from overseas Chinese to their families here.

Far Eastern Exchange: Highest and lowest rates per foreign currency unit

in HK\$: Philippines 1.76—1.755, Japan 0.01445—0.014175, Malaysia 1.871, Vietnam 0.06622, Laos 0.06—0.055, Cambodia 0.0725, Indonesia 0.115—0.11, Thailand 0.2849—0.2832. Sales: Pesos 310,000, Yen 102 million, Malayan \$320,000, Piastre 9 million, Kip 4 million, Rial 4 million, Rupiahs 500,000, and Baht 2 million. People's Yuan remained at 6.839 per Pound Sterling, 0.427 per HK\$, 0.805 per Malayan \$, 0.514 per Indian or Pakistan Rupee, 0.585 per Swiss Franc, and 2.345 per US\$; cash notes quoted HK\$1.35 per Yuan. Taiwan Dollar remained at 15.65—15.55 per US\$ and 2.74—2.72 per HK\$; cash notes quoted HK\$0.167—0.166 per dollar, and remittance 0.1525—0.151.

Agreed Merchant T.T. rates: Selling and buying per foreign currency unit in HK\$: England 16.202—15.867, Australia 13.016—12.757, New Zealand 16.202—16.10, United States 5.818—5.735, Canada 6.1538—6.0606, India 1.216—1.205, Pakistan 1.218—1.204, Ceylon 1.219—1.207, Burma 1.216—1.205, Malaya 1.8868—1.8692. Selling per foreign currency unit in HK\$: South Africa 16.236, Switzerland 1.3373, Belgium 0.1174, West Germany 1.3937, France 0.0139.

Bank Notes: Highest and lowest rates per foreign currency unit in HK\$: England 16.01—15.98, Scotland and Ireland 14.00, Australia 12.40—12.30, New Zealand 14.20, Egypt 12.00, East Africa 14.60, South Africa 15.50, Jamaica 14.00, Fiji 10.00, Malta 12.00, India 1.175, Pakistan 0.79—0.78, Ceylon 1.00, Burma 0.52, Malaya 1.835—1.83, Canada 6.31—6.245, Cuba 5.50, Argentina 0.135, Brazil 0.075, Philippines 1.80—1.775, Switzerland 1.36, West Germany 1.39, Italy 0.00935, Belgium 0.115, Sweden 1.02, Norway 0.72, Denmark 0.77, Netherlands 1.54, France 0.0128—0.0126, Vietnam 0.0695—0.0687, Laos 0.061—0.057, Cambodia 0.073—0.072, North Borneo 1.60, Indonesia 0.115—0.11, Thailand 0.273—0.272, Macau 1.025, Japan 0.014875—0.0147.

Aug.	Gold Market			
	High 945	Low 945	Macau 99	
26	\$285½	261½	275 High	
27	262½	261½		
28	261½	260½		
29	262	260½		
30			Low 270½	
31	261½	260½		

Opening and closing prices were 261½ and 261¼, and highest and lowest 265½ and 260½. Highest and lowest during August were 267½ and 257½. The market followed closely the fluctuation of US\$, but business was not large. Interest favoured sellers and aggregated HK\$7.80 per 10 taels of .945 fine. Tradings averaged 7,500 taels per day and totalled 37,500 taels for the week, in which 14,920

taels were cash tradings (1,920 taels listed and 13,000 taels arranged). Positions taken by speculators averaged 17,000 taels per day. Imports from Macau amounted to 11,000 taels. Exports totalled 8,500 taels (5,500 taels to Singapore, and 3,000 taels to Indonesia). Differences paid for local and Macau .99 fine were HK\$12.70—12.60 and 11.80—11.70 respectively per tael of .945 fine. Cross rates were US\$37.80—37.74 per fine ounce. 19,200 fine ounces were contracted at US\$37.78—37.75 cif Macau. US double eagle old and new coins quoted HK\$275—273 and 233—230 respectively per coin, English Sovereigns HK\$58 per coin, and Mexican gold coins HK\$284—280 per coin. **Silver Market:** 500 taels of bar silver traded at HK\$5.80 per tael and 500 dollar coins at HK\$3.65 per coin. Twenty-cent silver coins quoted HK\$2.80 per five coins.

HK SHARE MARKET

Business was active throughout the 3½-day week averaging half a million dollars every day. Interest covered most popular items while prices fluctuated within a narrow margin. Nanyang rose further to 9.95 from 9.35 but closed slightly lower at 9.80 after buying offers were depressed to 9.75 during mid-week. Textiles too gained another 17½ cents on the week. Go-down business remained optimistic and shares retained a firm trend: Wharves moved up to the record price of 125 and closed with sellers asking for 126; Providents had 7,600 shares transacted and advanced from 11.90 to 12.20; Docks registered a turnover of about \$70,000 but buyers offered only 49 after it had reached 49.50.

HK Banks retained steady demand throughout the week with 105 shares changing hands at prices varying from 880 to 887.50; closing rate fractionally lower than previous week on account of heavy selling of shares from London. Cements, Wheellocks, and Dairy Farms also active; closed slightly lower. Utilities (with the exception of Telephones), Lands and Realities were firmer after a week's steady business.

Investment company shares were quiet last week. The Secretaries for Yangtze Finance announced that at the close of business on August 28, the shares had a statistical value of \$8.65.

Turnover totalled a little over \$2 million: Monday \$521,000, Tuesday \$573,000, Wednesday \$453,000, Thursday \$543,000, Friday (holiday). The undertone at the close was firmer than the previous week.

Dividend—HK Realty & Trust Company's dividend for the year ended April 1957 is 15 cents per share.

Share	Aug. 23	Last Week's Rate		Closing	Up & Down	Dividend	Estimated Annual Yield (%)
		Highest	Lowest				
HK Bank	890	887.50	880	880	-\$10	\$50	5.68
Union Ins.	90	90 b	89.50	90 b	steady	\$3.40	3.78
Lombard	35 n	35 n	34.25 b	34.25 b	steady	\$2	5.84
Wheelock	7.85	7.85	7.80	7.80	-5c	75c	9.62
HK Wharf	118 b	126 s	120	126 s	+\$8	\$6	4.76
HK Dock	49	49.50	49 b	49 b	firm	\$2	4.08
Provident	11.90 s	12.20	11.90	12.20	+30c	\$1	8.20
HK Land	36.25	36.50	36.25	36.50	+25c	\$3.50	9.59
Realty	1.50 s	1.50	1.475 b	1.50 s	firm	15c	10.00
Hotel	15.40	15.50 s	15.30 b	15.40	firm	\$1	6.49
Trams	23.80	24	23.80	24	+20c	\$1.70	7.08
Star Ferry	131 n	131	131 n	131	firm	\$9	6.87
Yaumati	105	106	105	106 s	+\$1	\$7.50	7.08
Light	18.60	18.70	18.60	18.60	firm	\$1.10	5.91
Electric	29.80	29.80	29.80	XD 29.20	+20c	\$1.80	6.16
Telephone	27.80	27.90	27.70	27.70	-10c	\$1.50	5.42
Cement	32.75	32.75	32.25	32.25	-50c	\$4	12.40
Dairy Farm	15.70	15.70	15.50	15.60	-10c	\$1.63	10.45
Wataon	12.70 s	12.70 s	12.40 b	12.60 s	-10c	\$1	7.94
Yangtze	6.60 s	6.60 s	6.55 s	6.55 s	-5c	70c	10.69
Allied Inv.	4.20 s	4.25 s	4.15 b	4.25 s	+5c	25c	5.88
HK & FE Inv.	9.90	10.20 s	9.90 n	10.20 s	steady	80c	7.84
Amal. Rubber	1.50 s	1.475	1.45	1.475	steady	28c	18.98
Textile	4.30	4.475	4.30	4.475	+17½c	50c	11.17
Nanyang	9.60 b	9.95	9.75 b	9.80	+20c	\$1	10.20

CLOSING RATES ON 29-8-57

H.K. Govt. Loans
 3½% Loan (1934 & 1940), 88¼ nom.
 3½% Loan (1948), 85 nom.

Banks

H.K. & S. Bank, 870 b: 882½ s: 880 sa.
 H.K. & S. Bank (Lon. Reg.), £48 nom.
 Bank of East Asia, 270 nom.

Insurances

Union Ins., 90 b.
 Lombard Ins., 34½ b.
 China Underwriters, 7.30 nom.

Investment Companies

Allied Investors, 4¼ s.
 Yangtze Finance, 6.5 s.
 H.K. & F. E. Invest., Ex. Div. 10.20 s.

Shipping

Douglases, 480 nom.
 Indo Chinas (Pref.), 13 nom.
 Indo Chinas (Def.), 40 nom.
 U. Waterboats, 20 nom.
 Asia Nav., 1.40 nom.
 Wheelocks, 7¼ b: 7.85 s: 7.80 sa.

Docks, Wharves & Godowns

H.K. & K. Wharves, 122 b: 126 s.
 Sh. Hongkong Wharves, 1.20 nom.
 H.K. Docks, 49 b.
 China Providents, 12.10 b: 12.30 s: 12.20 sa.
 China Providents (Rights), 1.325 b.
 Shai Dockyards, 1.675 b.

Mining

Raub Mines, 3½ nom.
 H.K. Mines, 4c nom.

Lands, Hotels & Bldgs.

H. & S. Hotels, 15.30 b: 15.40 s: 15.40 sa.
 H.K. Lands, 36¼ b: 36½ s: 36¼/¼/½ sa.
 A/Fr. Lands, 35c nom.
 Shai Lands, 72c sa.
 Humphreys, 16.10 b: 16.30 s.
 H.K. Realities, 1.475 b: 1½ s.
 Chinese Estates, 370 nom.

Public Utilities

H.K. Tramways, 23.90 b: 23.90/24.- sa.
 Peak Trams (F. Pd.), 75 nom.
 Peak Trams (Partly Pd.), 36½ nom.
 Star Ferries, Ex. Div., 130 b: 131 sa.
 Yaumati Ferries, 105 b: 106 s.
 China Lights, 18.60 b: 18.80 s.
 China Lights (Rights), 12.80 b: 13 s.
 H.K. Electric, Ex. Div., 29 b: 29.20 sa.
 Macao Electric, 10.40 b: 10.80 s.
 Sandakan Lights, 8½ nom.
 Telephones, 27.60 b: 27.80 s: 27.70 sa.
 Shanghai Gas, 1.20 s.

Industrials

Cements: 32¼ b: 32½ s: 32¼/¼ sa.
 H.K. Ropes, 14.20 b.
 Metal Industries, 1.40 nom.
 Amoy Canning (HK), 35 b.

Stores
 Dairy Farms, 15½ b: 15.70 s.
 Watsons, 12½ b: 12.60 s.
 L. Crawford, 13.70 b.
 Cald. Macg. (Ord.), 28.30 b.
 Sinceres, 2.10 b.
 China Emporium, 8½ b.
 Sun Co., Ltd., 80c b.
 Kwong Sang Hong Ex. Div., 175 nom.
 Wing On (H.K.), 62½ b.

Miscellaneous

China Entertainments, 22 nom.
 International Films, 45c nom.
 H.K. Constructions, 5.80 nom.
 Vibro Filings, 16 b.
 Marsman Investments, 6/- nom.
 Marsman (H.K.), 65c nom.

Cottons

Ewos, 85c nom.
 Textile Corp., 4.40 b: 4.475 sa.
 Nanyang Mill, 9¼ b: 9.85 s: 9.80 sa.

Rubber Companies

Amal. Rubber, 1.45 b: 1.475 s.
 Ayer Tawah, 1.65 nom.
 Java-Consolidated Estates, 30c b.
 Langkat, 1¼ b.
 Rubber Trust, 1¼ b: 1.35 s.
 Shanghai Kelantan, 8½ b.
 Shanghai Sumatra, 2.60 nom.
 Sungala, 1.375 nom.

SINGAPORE SHARES

Tins and Rubbers remained firm and contributed substantially to the considerable volume of business written during the week ended August 23. Singapore Industrials continued quietly steady with mostly minor price changes. United Engineers rose to \$1.50 but closed 2½ cts. lower. McAlisters improved to \$2.07½ buyers and Malaysian Breweries to \$3.75. Straits Times were an active counter around \$4.15. There was extensive investment in Hongkong Banks, Consolidated Tin Smelters and Burmah Oil.

Petaling Tin after touching \$3.35 fell to \$3.20 and closed at \$3.30. Sungei Way had a substantial turnover around \$1.75 and Rantau were not far behind with exchanges mostly at \$2.75 cum the 40% final. Austral Amalgamated from 16/6 cum 1/- climbed to

16/10½ ex and Berjuntai closed 19/10½ buyers, a rise of 2/4½ in less than two weeks. Lower Perak were firm at 18/7½ and Kuala Kampar at 46/3. Lower Perak gave shareholders 16/5.4d. plus a capital return of 2/- and Kuala Kampar 68/- plus a capital return of 5/-. Most popular London registered tins were Ayer Hitam, Southern Malayan and Kamunting. Meru Tin, after a lengthy period of inactivity, showed signs of renewed speculative attention.

Local rubbers had a more active week. Jimah Rubber shot up to \$2.75 on speculative buying. Allenby reached \$1.80 and Ayer Panas \$2.05. Investment demand raised Batu Lintang to \$2.52½, Kempas to \$2.15 and Sungei Bagan to \$2.04. London registered shares had a quieter week although Ledang Bahru had considerable exchanges down to 3/4, at which price all offerings were quickly absorbed.

Local taxables were more freely offered but the tax-free War Loans remained in short supply.

TRADE REPORTS

Trading in produce, metals and paper was active in the local commodity market last week but interest was centred on a few popular items only and the turnover small. Business in pharmaceuticals and industrial chemicals was dull and spot transactions in cotton yarn, cloth and sugar sluggish. Building developments here kept cement steady while better local demand, with the approach of the Mid-Autumn Festival, improved prices for wheat flour. Price hike in the local rice market was checked.

Export of HK products remained active but entrepot trade at present is not too optimistic.

HK/China Trade—In addition to the usual large consignments of foodstuffs, Canton shipped here small quantities of sawn timber, cement, cloth, paper and rosin. From here, China absorbed several lots of metals and Pakistan cotton yarn when market quotations were slightly below new indents; quantities involved however were too insignificant to stimulate the market.

HK/Japan Trade—Lime stone constituted the major portion of 7,000 tons of imports from Japan; other principal items were woollen textiles, fruits, bean oil, cotton cloth, cement, sewing machines and sundries. One vessel left here for Japan fully loaded (7,500 tons) with iron ore but export of woodoil, sesame, cow hide, rosin and other staples totalled only about 300 tons.

HK/UK and HK/Europe Trade—Produce exports to UK and Europe restricted to small quantities of rosin, feather, vegetable oils and cow hide; demand covered mostly items which were difficult to get from China. Cargo movements between HK and UK very active last week; import of woollen textiles, automobiles, cigarettes, metals,

dairy products, machinery and equipment, wines and toilet articles totalled 6,000 tons while export of gloves, underwear, rubber shoes, plastic products, preserved ginger, cotton cloth and torch amounted to 6,000 tons. Demand from UK for cloth and gloves at present however is not as strong as at this time last year. Exports to Europe were much less; only about 1,000 tons consisting chiefly of HK manufactures. Demand from Sweden and Norway for HK knitwear, shirts, torch and garments is improving but orders are still limited to small quantities. In the local market, Swiss watches, German fishing lines and automobiles, Italian rayon yarn, and French perfumes and wines are enjoying very popular demand in spite of keen competition from similar US, UK and Japanese products. Several French export firms are now offering to supply the local market with iron and steel products; machinery and equipment for pharmaceutical, chemical, plastic, ceramic and food manufacturing industries as well as for railroad building; watches; and wearing apparel such as belts, neckties, scarves, etc. French importers are also interested in contacting HK manufacturers to market grey cloth in France.

HK/US Trade—Foodstuffs (including 20 tons of frozen prawn), shirts, pajamas, torch, plastic toys, rattan and hardwood furniture made up the bulk of consignments to US last week totalling 2,500 tons. Imports exceeded 1,500 tons consisting chiefly of blackplate, fruits, old newspaper, machinery and equipment, tobacco and pharmaceuticals. Exchange rates for US dollars here last week dipped slightly after a sudden jump on Monday; many importers rushed to establish L/Cs to cover imports from US. Most firms here now fix the exchange rate when L/Cs are established because they believe that US dollars are steadily going up in spite of small periodic dips.

HK/Malaya Trade—Probably due to the celebration of Merdeka in Malaya, firms there did not send here any orders last week. Demand from Singapore covered only small consignments of beans, rosin, garlic and other foodstuffs. Kuala Lumpur reported that HK is the biggest exhibitor at the million-dollar international trade fair there. HK has 48 stalls with exhibits ranging from piecegoods to enamelware. Chinese importers in Malaya set up a China stall displaying foodstuffs, handicrafts, china, cigarettes, textiles and light industrial machinery.

Local traders are anticipating possible discontinuation of preferential import duty in Malaya on HK manufactures. Kuala Lumpur is now importing increasing volume of essential supplies direct from US, UK, Japan and other manufacturing countries and if HK products could not enjoy preferential tariff in Malaya, keen competition from Japanese and other goods will further cut the volume of exports from here to Malayan ports. At pre-

sent, Malaya is one of the top three customers of HK.

HK/Thailand Trade—Import of rice totalled about 4,000 tons. Government announced that Bangkok had assured HK that shipments of rice to HK would not be restricted. Exports to Thailand amounted to 3,500 tons; foodstuffs, construction materials, cotton textiles and paper constituted the major portion of the tonnage. Demand for metals, paper, pharmaceuticals, foodstuffs and HK products from Bangkok remained steady but the volume of these purchases at present is much less than during the same period last year. Reports from Bangkok reveal that Thai traders curtailed imports from HK recently because replenishment costs are in many cases higher than quotations in Thai markets and there have been an influx of commodities into Thailand from Cambodia, Laos, South Vietnam and Burma.

HK/Indonesia Trade—Only about 500 tons left here for Java and orders from Djakarta last week covered only small lots of metals, paper and foodstuffs. Increased value of export certificates in Djakarta made cost of imports more expensive and the devaluation of rupiah further discouraged importers there to order supplies from abroad. Prospects of improving exports to Java are not very bright because Djakarta at present is overstocked with commodities reached there from Indonesian territories outside Java. Japan's resumption of shipments of textiles and other supplies to Indonesia and Djakarta's increased volume of direct imports from US and other manufacturing countries will further adversely affect HK exports to Java. On the other hand, the devaluation of rupiah stimulated imports from Indonesia; 4,000 tons of raw sugar reached here last week. Import of rattan, groundnut oil and other staples also increased.

HK/Philippines Trade—Shipments to Manila again slowed down because authorities there curtailed imports during the 3rd quarter. Orders reached here were chiefly for wheat flour, and other HK products. HK manufacturers will participate in the coming (November 30) Philippine International Trade Fair in Manila; 38 factories have already registered with the Manufacturers' Union here.

HK/Korea Trade—More orders reached here from Seoul for paper but transactions were either restricted by limited stock here or handicapped by low buying offers. There were also orders for metals and other supplies but quantities involved small and interest centred on a few popular items only. Shipments to Pusan also handicapped by restrictions imposed by the South Korean Consulate here in the issuance of consular invoice and certificate of origin. Beginning September 1, 1957, exporters here applying for consular invoice and certificate of origin for shipment on D/P basis are required to submit an en-

dorsed copy of certificate of approval issued to consignees by Korean Ministry of Commerce and Industry. Furthermore, goods which are stored here over a year are now difficult to get endorsement for certificates of origin even if original invoices, landing certificates and other documents are produced.

HK/Taiwan Trade—Import of sugar slowed down; consignments of tea, live hogs, citronella oil, camphor products, fresh ginger, canned food and camphor wood squares and boards to the local market totalled 400 tons last week. There were more enquiries than orders from Taipei for pharmaceuticals and chemicals; most transactions handicapped by low buying offers.

HK/Cambodia Trade—In addition to a large number of pigs and substantial quantities of beans, maize, sesame, cow hide and other staples, Phnompenh shipped here 2,000 tons of rice. Shipments to Cambodia also heavy and consisted chiefly of cotton textiles, metals, construction materials, foodstuffs and other consumer goods.

HK/Laos Trade—Exports to Laos remained quiet; from here Vientiane bought some Japanese textiles last week.

HK/Vietnam Trade—Tight money and heavy stocks in Saigon discouraged importers there from booking supplies from here. Haiphong shipped here several consignments of taro chips, live cattle, feather and tea but quantities insignificant.

HK/Burma Trade—Exports steady averaging about 600 tons a week at present; groundnut oil, foodstuffs, garments, knitwear and sundries were among articles shipped to Rangoon last week. New orders covered menthol crystal, underwear and winter goods, enamelware, torch and foodstuffs; each order averaged about HK\$15,000. Strong demand for Burmese rice from Pakistan will enable Rangoon to keep up a steady import of essential supplies from here.

HK/Ceylon Trade—An order reached here from Colombo for HK wheat flour. Consignments to Ceylon covered by previous orders totalled 1,000 tons last week; principal items included dried chilli, cotton textiles, enamelware, torch and camphor tablets. Under the new rubber/rice trade agreement now under negotiation between Peking and Colombo, Ceylon will buy more light industrial products from China during the next five years; purchases from here will therefore be very much limited. Colombo is also buying automobiles (Moskvitchs) from USSR.

HK/Africa Trade—Beginning November 1, export of HK products to Nigeria must be covered by certificates of origin issued by Department of Commerce and Industry.

HK/North Borneo Trade—NB continued to send here substantial quantities of timber, firewood, rubber and scrap iron but purchases from here failed to improve.

HK/Australia Trade—HK manufactures including cotton textiles, knit-

wear, torch, umbrella, vacuum flask, rattanware, plastic products and rubber shoes constituted the major portion of 1,500 tons of consignments to Australia. There were also orders for woodoil, soya bean and other produce but quantities insignificant. Import of frozen meat and other foodstuffs from Australia averaged about 500 tons every week.

HK/Pakistan Trade—According to the Pakistan trade commissioner here, Karachi is anxious to sell tea, cow hide, kapok, oilseeds and other staples to HK in addition to raw cotton and cotton yarn. Import of cotton yarn from Pakistan slowed down recently because market quotations here are lower than new indents at present.

China Produce—Woodoil, garlic, feather, rosin, soya beans remained popular on the spot market but turnover restricted by limited supply from China; orders from Japan, Canada, Australia and New Zealand for woodoil were mostly for forward direct shipments from China to various destinations and therefore did not affect spot market here. Groundnut oil enjoyed better local demand but exports slowed down; prices remained firm because stock dwindled after recent heavy exports to Burma. Demand from Japan for oilseeds declined; sesame and groundnut however were kept steady by improved local demand. Transactions in other staples quiet.

Metals—China absorbed more steel wire rope, iron rod, steel plate, black-plate waste from here because prices were still attractively low. Indonesia was interested in structural steels, steel plate and metal sheets but many transactions fell through on account of low buying offers. Mild steel round bars retained strong local demand in addition to orders from SE Asia but heavy stock prevented price improvements. Local demand also kept galvanized iron pipe, black pipe, galvanized iron wire and scrap iron steady. Cambodia, Thailand and Korea were interested in a small number of items but most transactions fell through.

Paper—Demand from Seoul improved and covered newsprint in reels, wood-free, sulphite, tissue, cellophane, glassine but turnover limited by low stock here. Dealers here on the other hand are discouraged to book heavy supplies from Europe and other sources because replenishment cost has advanced while buying offers in most cases are below market quotations. Indonesia, Thailand and North Vietnam enquired for tissue, manifold and straw board; interest centred chiefly on Japanese and Chinese products and transactions also handicapped by low buying offers.

Pharmaceuticals—Trading quiet but prices for most popular items including penicillin oil injections, dihydrostreptomycin, isoniazide tablets, sulfadiazine and phenacetin firm on low stock.

Industrial Chemicals—The market was sluggish.

Cotton Yarn—Spot transactions in HK yarn were slow because supply

limited. Local weavers and knitters are providing steady demand for HK yarn and many spinners here have enough orders on hand to keep their spindles whirling for the next 6 months. Pakistan yarn attracted orders from Thailand and China because market quotations here were lower than new indents.

Cotton Piecegoods—HK grey cloth quiet in spot transactions; prices firm on steady exports to UK and other markets. HK drill weak under pressure of Chinese products; in spite of shortage on the mainland, Peking continued to ship cotton piecegoods (chiefly grey cloth and drill) to the local market. Japanese grey steady on demand from local printing works and Japanese white cloth favored by Laos.

Rice—Price hike was checked last week. Government announced that import quota for the 4th quarter will remain unchanged at 24,200 tons per month. Bangkok assured HK that supply of rice to the local market will not be restricted. Stock here at present is adequate enough to feed the population for 3½ to 4 months.

Wheat Flour—Orders from Ceylon, Philippines plus improved local consumption on account of the approaching Mid-Autumn Festival stimulated prices for HK wheat flour. Imported brands also firmed.

Sugar—Imports from Taiwan slowed down but prices here still weak because new crop is now available and many offers reached here from Taipei last week. The supply over demand situation forced Taikoo to mark down its prices again. About 4,000 tons of raw sugar ordered by Taikoo arrived from Indonesia.

Cement—Local demand remained very heavy and might further improve during the next few months after the rainy season is over. Supply from China restricted to small consignments; indents marked down to \$105 per ton. Japanese cement too eased to \$112 per ton under keen competition from Chinese products. Green Island products steady; demand far exceeds supply at present.

Safety Matches—Leading HK and Macau match factories have formed a joint sales company to avoid suicidal competition.

Knitting Yarn—The brisk season is approaching. Supply from UK, Japan and Europe is arriving and more shipments are expected to reach here next month. Prices this year will probably be lower than last because competition among various suppliers is keen.

HONGKONG COMPANY INCORPORATIONS

Following new limited liability companies were incorporated during the fortnight ended July 27, 1957 (all capital is nominal and in HK\$):

The East Asiatic Wire Rope & Cable Co.—Capital, 500,000; Subscribers: Pong Ding Yuen, Rm. 301, 8 Des Voeux

Road Central, Hongkong, merchant; C. F. Hung, same address, merchant. **F. T. Leung and Co.**—Silk weavers; Capital, 500,000; Man Yee Building, Hongkong; Subscribers: Leung Fook Tin, 33 Yuk Sau Street, Hongkong, merchant; Fok Wai Hung, 131 Jaffe Road, Hongkong, merchant. **Food Distributors (H.K.)**—Capital, 10,000; Subscribers: Robert J. Newton, 566 The Peak, Hongkong, company director; I. R. A. MacCallum, 2 Queen's Road Central, Hongkong, solicitor. **Hotel Mabuhay**—Capital, 220,000; Subscribers: Mok Tsze Fung, 53 Wongneichong Road, Hongkong, merchant; Tong Man Leong, 24 Fort Street, Hongkong, merchant; Yuen Siu Lau, 7 Eastern Terrace, Hongkong, merchant. **T. H. Doolan (Far East)**—Importers & exporters; Capital, 10,000; Rm. 608, 8 Duddell Street, Hongkong; Subscribers: Cecily M. Doolan, 11 Broadway, New York, 4, New York, housewife; Wong Shun Fat, 75A Robinson Road, Hongkong, merchant. **Ying Ying Co.**—Keepers of ball room & theatre; Capital, 300,000; 1 Great George Street, Causeway Bay, Hongkong; Subscribers: Lo Yuen, 81 Blue Pool Road, Hongkong; Lee Ming Hang, 46 Wyndham Street, Hongkong; Tam Ying, 519 Jaffe Road, Hongkong; Wong Chuck Yue, 519 Jaffe Road, Hongkong. **Kwong Hing Construction Co.**—Capital, 100,000; Fu House, Hongkong; Subscribers: Fu Yum Chiu, 8 Tak Shing Street, Kowloon, merchant; Fu Yam Chi, 4 Tak Shing Street, Kowloon, merchant. **Nam Sang Wai Development Co.**—Capital, 170,100; 723 Alexandra House, Hongkong; Subscribers: Lee Sai Wah, 5 Magazine Gap Road, Hongkong, merchant; Nancie Shen, 5 Magazine Gap Road, Hongkong, married woman; Hoo Kam Chiu, 7 Tung Shan Terrace, Stubbs Road, Hongkong, merchant; Hoo Kam Tai, 7 Tung Shan Terrace, Stubbs Road, Hongkong, merchant. **The Seven Seas Cultures**—Publishers; Capital, 500,000; 220 Man Yee Building, Hongkong; Subscribers: Talman Chan, 27 Battery Street, Kowloon, journalist; Lin Lyon, 14 Castle Road, Hongkong, merchant. **Union Enterprises Co.**—Chemists & druggists; Capital, 250,000; 1106-7 Man Yee Building, Hongkong; Subscribers: Arthur Wai Woo, 55 Conduit Road, Hongkong, medical practitioner; Wong Zung Tung, 21 Tin Hau Temple Road, Hongkong, merchant. **Lee On Construction Co.**—Capital, 2,500,000; 33 Ko Shing Street, Hongkong; Subscribers: Fong Hin Yeung, 10 Tsat Tze Mui Road, Hongkong, merchant; Stanley Ho, 12 Conduit Road, Hongkong, merchant. **Eastern Hellenic Co.**—Shipowners; Capital, 150,000; 228 Wang Hing Building, Hongkong; Subscribers: J. C. Stewart, 10 Queen's Road, Central, Hongkong, solicitor; G. Sinclair Stevenson, 10 Queen's Road, Central, Hongkong, solicitor. **Merck Sharp & Dohme (Asia)**—Importers & exporters; Capital, 600,000; c/o Lowe, Bingham & Matthews, Alexandra House, Hongkong; Subscribers: Chan-chow Ma, 405 Winner House, Hongkong, merchant; P. A. L. Vine, 4 The

Peak, Hongkong, solicitor. Radar Co.—Importers & exporters; Capital, 100,000; 2 Observatory Road, Kowloon; Subscribers: William Eric Tan, 39 Chatham Road, Kowloon, merchant; Andrew K. C. Wong, 15 Hillwood Road, Kowloon, merchant. Hongkong Wea-

vers—Cotton spinners; Capital, 10,000; 341 Alexandra House, Hongkong; Subscribers: William Charles Gomersall, 515A The Peak, Hongkong, chartered electrical engineer; Alistair Drummond, 13 Shek O, Hongkong, chartered accountant. Victoria Park Hotel—

Capital, 5,000,000; Subscribers: Tseng Hsiang Wang, 128 Bonham Strand East, Hongkong, merchant; Lin Huo Yen, 128 Bonham Strand East, Hongkong, merchant; Chan Dai Bun, 128 Bonham Strand East, Hongkong, merchant.

THE COMMUNIST SYSTEM AND DIFFERENT ROADS TO SOCIALISM

(Continued from Page 306)

industry are given wider latitude to plan and supervise production within their factories, much of the red tape and inefficiency will remain. Hitherto no indication has been given that their powers will be increased, though this may come later on—perhaps as a matter of desperate necessity. But the factory directors themselves are not anxious to thrust their necks out and take on additional responsibilities that may imperil their own future. When they are asked by the workers why so little progress is being made in streamlining the factory management, the answer is said to be that they must wait to consult with the economic councils.

Each economic council will draw up production and supply plans for the factories, trying as far as possible to utilise the manufactured goods and resources within its own area instead of shopping for the needs far afield, whereby a factory, say, in Riga became dependent on the Siberian city of Novosibirsk for materials which, under proper organisation, could have been obtained next door. For some time to come, at any rate, there is almost certain to be appalling confusion if not absolute chaos; and to this would be added the uncertainty of M. Khrushchev's own position and of his policy if things went wrong. As things are, foreign experts are convinced Gosplan will have to be continually interfering, penetratingly and regularly, in the work of the local councils. Effects of the reorganisation on Soviet industrial productivity will begin to show themselves toward the end of the year.

M. Khrushchev himself told a party of American business and professional men visiting the Soviet Union that the decentralisation programme would put an end to the "madhouse of bureaucracy" in which 20 Departments in Moscow would control a single factory. Each economic centre has specialised Departments and the head of each of them had broad powers to answer all questions arising under him. This, he said, had lessened bureaucratic tendencies and brought the administration closer to the factories and made greater constructive criticism possible. Tens of thousands of people had been freed from empty paper work and turned into the productive channels of the economy, and the "hundreds of thousands who used to read these papers are free from this madhouse too." He claimed that the reorganisation saved billions of roubles for the economy and provided greater democracy on the political side. The initiative of engineers, scientists and workers, he went on, is much greater than before and they can now also express their views.

While he praised his own brainchild he was also delivering, intentionally or otherwise, a devastating blast against the last administration of industry in Russia and its centralised bureaucratic system. No doubt the successful implementation of the policy of decentralisation will absorb the whole of M. Khrushchev's remarkable energies. That will be a relief to the other Communist States who must have been greatly concerned over his ambition to tie all their economies to that of the Soviet Union. He alleged, according to the editor of the leading Hungarian paper, who interviewed him, on July 21, that great errors were made because Communist countries were trying to be

economically self-sufficient. There must be greater co-operation and co-ordination; "it is not possible that everything should be produced at the same time everywhere," yet Hungary, Poland, Rumania and the others all try to produce all they need for themselves. "We are fighting in competition with the capitalists and each Socialist land must produce only those things which it can produce more cheaply and in the greatest quantities." This, he said, is one of the most important questions for the whole Socialist world—so it looks as though he has both a huge domestic battle on his hands and a second battle looming within the bloc as a whole.

The day after this appeared in print in Budapest the Polish Premier was quoted as staunchly defending Poland's "own road to Socialism" and said his country was impelled to follow attentively what is happening in Communist China and Yugoslavia. The decisions of the Party plenary session last October marked the beginning of a new stage in the history of the People's Poland and included a liberalisation of Party and Government policy and a new agreement with the Soviet Union regarding the "temporary" stationing of the Red Army troops in Poland. The view in London, as developed at the Commonwealth Conference, seemed to be that the recent Russian changes may introduce another period of uncertainty for the democratic world. The New Zealand Foreign Minister said on his return to Auckland that Nikita Khrushchev's record, his ruthless thrust and the powerful support he has won from the Russian Army, make him most unlikely to be a leader of any liberalising movement in whatever form it might assume. Meanwhile the view was confirmed in London that the West's policy should remain unchanged. At the same time, in Peking, the Polish Ambassador called China an "authority and model of political wisdom for us," declared that the bonds between them were becoming closer, and said that the Polish Party Secretary, Mr. Gomulka, had stressed the "decisive significance of the theoretical works of Chairman Mao Tse-tung to the development of Socialism." Comment on the visit of the Yugoslav Vice-President Vukmanovic-Tempo, who is in charge of economic affairs and planning, to Peking, together with other important diplomatic and financial officials, indicated that while the immediate object is to increase trade relations the visit may have a profound political significance, especially in the light of China's support of Tito's different roads to socialism policy. Yugoslav Communists say that ideologically the Chinese and the Polish Communists are now closest to them and Yugoslav officials are closely following Chinese involvement in East European politics.